



## BUDGET AND BUDGETARY ACCOUNTING

### What is the City Budget?

Every year the City Council adopts a Budget and Financial Plan for the next fiscal year, (the City's fiscal year runs from July 1 of one year through June 30 of the next year). The Budget is the City's business and financial plan for the year.

The two purposes of the Budget are: (1) to set goals, objectives, and service levels for the City to meet during the next year (thus insuring the provision of City services to Milpitas residents); and (2) to estimate and allocate the money the City will take in and spend during the year.

In many ways the City's Budget is like a household budget. Every year we sit down and estimate what we think our income will be for the coming year, and make plans on how to spend and save this income. There are some key differences, however, between the City and a household budget. Our income (called revenue) can fluctuate substantially within a given year or from year to year. It is not like having a known paycheck to spend or save. There are very few sources of income over which the City has direct control. For example, we have no control over property tax revenue; it can fluctuate depending on the number of homes sold in the community and the amount of building activity. The level of building activity also impacts other sources of revenue such as building permit fees. These are revenues that have a somewhat direct relationship with the general state of our economy. The economy also affects another major source of income -- sales tax -- which depends on the amount of goods people buy in our community.

We have a little more certainty and control over how much money we spend, but even that has some impacts and restrictions which reduce our flexibility. The federal government and state government require we make additional expenses, such as Medicare contributions and required methods of compensating for overtime mandated by federal law. In addition, we do not, in most cases, have the ability to stop doing things simply because we do not have the income. Police and fire protection are good examples. Even if revenue decreases substantially, we still need to be able to staff the fire stations and provide a minimum level of police patrol services.

It is important to remember that the numbers in the Budget are estimates. Many things happen during the year that impact our income and spending. However, we try to budget as best we can. We try very hard to estimate revenues realistically but also conservatively enough to insure that there are adequate funds to meet our needs. We also budget a contingency reserve each year to meet unanticipated expenses, and we maintain adequate reserves to protect us from future unknowns. As a "rule of thumb", we try to maintain an unallocated, or unbudgeted, reserve in the general fund that is at least 15% of the general fund operating budget.

### What are "Funds"?

The City's Budget is financed by the use of different "funds". A fund can be thought of as a separate bank account used for specific purposes. The **General Fund** is the City's main operating fund used to pay for "traditional" city services such as police and fire protection, administration, street maintenance, and recreation functions. These activities utilize most tax dollars, such as property tax and sales tax, but are also supported by licenses and permits, court fines, and investment earnings. Some activities in the General Fund, such as building inspection and recreation functions, are also intended to be substantially self-supporting through fees for services charged to individuals. In areas where specific benefit for a service can be identified to specific individuals, the City has a policy of charging a fee to offset the cost of providing the service.

Another major group of City funds are called **Enterprise Funds**. These funds are used to account for specific services which are funded directly by fees and charges to users. In Milpitas, Enterprise Funds include the Water Fund and the Sewer Fund. The intent is that these two funds be completely self-supporting and not be subsidized by any general revenue or taxes. The utility bills sent to each household and business in the community charge for the cost of providing water and sewer customer services. These funds are accounted for as if each activity was a separate, independent non-profit business of the City.

Various **Capital Improvement Funds** are also maintained by the City. A capital improvement is usually a large construction project such as the resurfacing of City streets, the development of park land, the construction of an overpass, the installation of a traffic signal, or the acquisition of land and construction or remodeling of a public building. The City's Capital Improvement Funds include the Street Improvement Fund, the Park Fund, the Redevelopment Project Fund, and the Treatment Plant Construction Fund. Water and Sewer capital projects are financed in the respective Enterprise Funds.

Finally, the City maintains **Debt Service** and **Special Revenue Funds**. The former type of fund is used to pay the principal and interest payments associated with retiring bonds that either the City or the Milpitas Redevelopment Agency has issued. The later funds set aside special revenue, such as Housing and Community Development federal revenue, which is restricted in its use.

### How is the Operating Budget Prepared?

The **Proposed Budget and Financial Plan** is prepared each year by staff, detailing what will be necessary to provide City services for the upcoming year, identifying various department objectives and significant policy issues for Council direction. After delivery of the Proposed Budget to the Council, the City Council holds public budget hearings in May to provide the public with the opportunity to make any comments or suggestions regarding the Budget. The City Council then adopts the Proposed Budget as it may be amended during the budget hearings. A Final Budget is subsequently adopted, formally incorporating in a single document the changes that were directed during the budget hearings.

The proposed budget document is prepared to insure that the spending authority proposed carries with it an anticipated level of service. The budget process is designed to integrate the

managerial task of planning with the quantitative task of presenting expenditure requests for approval. The process assumes that individual managers have the most insight into their own operations and, therefore, should be the ones to identify and support the various alternative levels of service they are able to provide as well as the costs of those levels. Thus, this document follows the format of presenting discrete **functions** (groupings of interrelated programs within a department, such as a division) for analysis and approval by the City Council. The functions are listed in the Table of Contents and are graphically shown on the General Information tab.

#### How is the Capital Improvement Program Budget Prepared?

The **Five-year Capital Improvement Program Budget** is prepared each year, in a process that parallels the preparation of the Operating Budget (as shown in the Budget Preparation Timeline included in this Appendix).

Departments are asked to submit a comprehensive prioritized list of all of their Capital Improvement Program (CIP) projects. CIP projects are prioritized using the following categories (listed in priority order): mandatory or committed projects, health and safety projects, maintenance of existing capital assets or systems, major service equipment replacement, projects which avoid future additional costs, studies and analyses, enhance economic development and improve the quality of life. The Finance Department and the Engineering Division work closely in the funding analysis phase of the CIP process to determine which project will proceed and which projects may be accelerated or delayed. Unlike the Operating Budget, before the CIP Budget can be submitted to the City Council it must first be submitted to the Planning Commission. If the Planning Commission finds the CIP in conformance with the General Plan, the Parks projects are then submitted to the Parks, Recreation and Cultural Resource Commission for their approval.

After delivery of the Preliminary Report to the Council, the City Council holds public budget hearings in May to provide the public with the opportunity to make any comments or suggestions regarding the CIP. The City Council then adopts only the first year of the Five-year Capital Improvement Program Budget as it may be amended during the budget hearings. A Final Capital Improvement Program Budget is subsequently adopted, formally incorporating in a single document the changes that were directed during the budget hearings.

#### Budgets and Budgetary Accounting

The City's budget is adopted on a basis consistent with generally accepted accounting principals (GAAP) except that encumbrances are considered budgetary expenditures in the year of the commitment to purchase, and capital project expenditures are budgeted on a project length basis.

The City and the Redevelopment Agency adopt an annual Operating Budget and Financial Plan on or before June 30<sup>th</sup> each year. The City and the Agency follow these procedures in establishing the budgetary data reflected in their financial statements:

- Public budget hearings are conducted in May to evaluate the proposed budget and seek public input.
- On or about June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and identified financing means.
- Prior to July 1, the budget, as may be amended, is adopted by the City Council and Agency Members.
- A final budget document which summarizes the adopted budget is formally enacted, within 90 days, by resolution of the City Council and the Agency Members.
- The City Manager is authorized to transfer budgeted amounts within departments within any fund. The City Manager has limited discretion to appropriate funds in an aggregate amount not to exceed the equivalent of 1% of the General Fund budget.
- Budgeted amounts are as originally adopted, or as amended by the City Council or the Agency Members. Budget amendments made during the year are not material in relation to the original appropriations.

The legal level of budgetary control is exercised at the departmental level for those funds which have annually adopted budgets: General Fund, Special Revenue Funds and Capital Projects Funds.

Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds and Capital Projects Funds. Formal budgetary integration is not employed for Debt Service Funds because effective budgetary control is alternatively achieved through the various bond indenture provisions.

Appropriations automatically lapse at the end of the fiscal year unless an encumbrance exists, with the exception of balances remaining in the capital project accounts and grant accounts at the end of the fiscal year. These balances are carried forward to the following fiscal year until the project is completed.

#### Prop 4 – Appropriations Limit

The City establishes an appropriations limit by resolution, each year during the budget process, which commences after the beginning of each fiscal year. The appropriation base is adjusted each year by changes in population, cost of living and transfers of financial responsibility. The 2003-04 resolution for the appropriations limit is included in the Resolutions section of this budget document.

#### Budget Amendments

The operating budget is subject to supplemental appropriations throughout its term in order to provide flexibility to meet changing needs and conditions. The procedure for amending budgets depends on the type of change that is needed. One type of change does not affect

the "bottom line" total for a department. These changes, mainly transfers from one-line item to another within a department's operating budget or changes between two divisions within a department, may be effected by preparing a budget change form for the City Manager's authorization.

The second type of budget amendment brings about a change in the total appropriation for a department or fund. Examples of these changes include but are not limited to:

- the acceptance of additional grant money which might become available;
- changes providing for increases in permanent personnel or changes in classification for personnel from the number of positions approved in the Budget;
- the appropriation of additional funding if expenditures are projected to exceed budgeted amounts; or
- the reappropriation of monies from one fund to another when deemed necessary.

These types of changes would require City Council and/or Redevelopment Agency approval in the form of a budget appropriation.

#### Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements, regardless of the measurement that is applied. All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Fund revenues are recognized when they become measurable and available as net current assets. Measurable means the amount of the transaction can be determined and available means the amount is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Those revenues susceptible to accrual are property and sales taxes and interest revenue. Forfeitures, licenses, permits, and miscellaneous revenue are not susceptible to accrual because they are not measurable until received in cash. Revenues not considered earned but received are accounted for as revenue collected in advance.

Expenditures are also generally recognized under the modified accrual basis of accounting. An exception to this rule is principal and interest on general long-term debt, which is not recognized by debt services funds until it is due. Financial resources usually are appropriated in funds responsible for repaying debt for transfer to a debt service fund in the period in which maturing debt principal and interest must be paid.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Revenues for services provided but not billed at the end of the fiscal year are not material and are not accrued.

### Use of Cost Accounting

The City uses cost accounting in several areas to determine the proper allocation to recover costs for services provided. Through an internal service fund, the City annually allocates amortized costs of user departments for vehicles and equipment over the useful life of the assets. The amortization costs are charged to the respective user departments in their operating budget. In 1994 the City contracted with a consultant to develop a cost control study. As a result of the study, a cost distribution and cost control system was developed for the City's fee supported and supportable services. The cost distribution system also included allocating interdepartmental costs between functions, departments, programs and funds. The 2003-04 internal cost allocation schedule is included on pages 78 and 79 of this budget document.

### How Can I Learn More?

We hope that this brief introduction to the Budget has been helpful. You can learn a great deal more by reading this document. We have also included a glossary of terms in the Appendix section of this Budget to help you better understand some of the common jargon. If you would like additional information about the Budget, or have ideas on how we can make the Budget more understandable and informative, please contact the Director of Financial Services at (408) 586-3145.

## BUDGET GUIDELINES

### INTRODUCTION

The annual operating budget is the primary short term financial planning tool for the City. It is used to set forth the City's estimates of resources available to fund services and to specify the way in which monitoring occurs as the year progresses so that material variables are identified and action can be reasonably taken to correct them. Further, since no plan will prove to be an absolutely accurate reflection of future events, management must have sufficient flexibility to make adjustments during the year which do not materially alter the general intent of the City Council when adopting the budget. These guidelines are intended to provide that flexibility and to establish adequate controls, through budget monitoring and periodic reporting, to ensure that the overall distribution of resources achieves the results contemplated by the City Council.

### ROLES AND RESPONSIBILITIES

1. **City Council** - The City Council establishes policies regarding service levels and priorities which provide guidance to management in preparing the recommended budget, through its legislative authority to approve and adopt the budget by resolution ensures that the final document reflects those policies, and reviews budget compliance throughout the year.
2. **City Manager** - The City Manager is responsible for proposing to the City Council, a balanced budget which is consistent with established service level priorities and with sound business practices, and for establishing a system for the preparation, execution, and control of the budget which provides reasonable assurances that the intent of Council policies are met.
3. **Department Heads** - The Department Heads are responsible for monitoring their respective budgets for compliance with the intent of Council priorities and for insuring that appropriations of the aggregate total of the department are not exceeded.
4. **Director of Financial Services** - The Director of Financial Services provides assurance to the City Manager and the City Council that the budget resolution is consistent with the decisions made by the City Council during the process of reviewing, amending, and approving the City Manager's proposed budget.
5. **City Attorney** - The City Attorney is responsible for preparing the budget resolutions in a form consistent with legal requirements.
6. **City Clerk** - The City Clerk is responsible for maintaining records of all City Council proceedings relating to the budget, including all documents filed as part of the proceedings.

## **STATEMENT OF GUIDELINES**

### **1. General**

These guidelines are intended to require that systematic procedures be used in the development, review, adoption, and monitoring of the budget, and to set forth the nature of those procedures. The detailed procedures used are to be established by the City Manager.

### **2. Budget Calendar**

A budget preparation calendar will be provided to the Department Heads and to the City Council at the beginning of the budget process each year. The calendar will set forth, at a minimum, dates for the following:

- a. Review of service level priorities by the City Council at an annual City Council Planning Workshop.
- b. Presentation of the City Manager's proposed budget to the City Council, which shall be no later than the second week in June.

### **3. Form and Content of the City Manager's Proposed Budget**

- a. The City Manager's proposed budget, the Preliminary Budget and Financial Plan, shall be presented in a form which is sufficient to allow the City Council to determine and review:
  - Projected revenues by major category;
  - Operating expenditures by department or program, and by fund;
  - Staffing levels;
  - Historical Staffing by Division;
  - Service levels;
  - Provision for the implementation of City Council priorities as established at its annual City Council Planning Workshop;
  - Statements of objectives and accomplishments;
  - Recommendations for policy changes and impact;
  - Capital improvement appropriations by project.

- b. Comparison with the preceding year's actual results and current year's projected results will be provided for each category of revenue and expenditure shown in the budget.
- c. A description of the service levels to be provided under the proposed budget will be included.
- d. A statement of the services reduced or eliminated and the services improved or added, as compared to the current year, will be included.
- e. A statement of the City's ability to sustain funding of current year budget decisions in the future.

4. **Adoption of the Budget**

The City Council will adopt the budget by resolution, setting forth the amount of appropriations, guidelines of budget control, and authority of the City Manager to administer the adopted budget.

5. **Budget Authority of the City Manager**

The City Manager shall have the authority to amend appropriations within the various departments and projects within a fund, consistent with the Budget Resolution, in order to achieve the general objectives contemplated in all budgets. Interfund transfers require prior approval of the City Council, and no expenditures may be made from any undesignated fund balances without an appropriation by the City Council. Appropriations from either unallocated reserves or appropriated contingency reserves, transfers from one department to another, or transfers of any appropriation amounts which in any single instance exceed \$10,000 must receive prior approval by the City Council.

The City Manager will have the authority to reasonably deviate from the budgeted personnel allocation schedule provided that at no time will the number of permanent, full-time employees authorized by the City Council be exceeded.

6. **Budget Amendments by the City Council**

The City Council may from time to time approve expenditures and identify funding sources not provided for in the adopted budget including those expenditures funded through undesignated fund balance or contingencies. All changes approved during the year are to be recorded in the minutes of Council actions and documented.

7. **Budget Transfers and Modification Procedures**

Systematic procedures to implement budget transfers or budget modifications will be detailed in Standard Procedure No. 21-1, subject to any changes to the Budget Resolution.

8. **Automatic Adjustments and Reappropriations**

- a. Outstanding encumbrances at year-end will automatically be adjusted to current year and prior year budgets.
- b. Incomplete multiple year project balances will automatically be reappropriated.

9. **Budget Monitoring and Reporting**

- a. General Monthly Reports - The Director of Financial Services will prepare a monthly financial status report for distribution to the City Council, tracking actual receipts of major revenue categories compared to projections based on historical information and reporting any significant expenditure variations. A quarterly Investment Activity Report will also be distributed to the City Council pursuant to City's Investment Policy.
- b. Periodic Interim Budget Reports - The Director of Financial Services will periodically prepare a budget status report for distribution to the City Council, including the status of revenue and expenditure.

10. **Reserves**

Various unallocated reserves are desired in each of the City's funds to protect the City in emergencies and from future uncertainties, and to finance unforeseen opportunities and/or requirements. In conjunction with the annual budget process (or more frequently if necessary), a review of reserve guidelines will be completed by the City Manager, and recommendation for changes, if deemed appropriate, will be submitted to the City Council for their action.

**General Fund**

A general fund unreserved, undesignated fund balance will be maintained with 15% of annual appropriations as a minimum. A Public Employees Retirement System (PERS) Rate Stabilization Reserve is maintained to mitigate the impact of any unpredictable PERS rate increase. In addition, a Capital Project Contingency Reserve is maintained for construction, renovation and/or rehabilitation of City facilities. This unreserved, undesignated fund balance will be maintained to provide for:

- Revenue and expenditure budget fluctuations;
- Unanticipated emergencies, (e.g., natural disasters, public safety emergencies, capital emergencies, etc.);
- Economic uncertainties;
- Economic development opportunities; and
- Future capital projects.

An unreserved, undesignated general fund balance is defined as: total fund balance less reserved fund balances and designated fund balances for projects, retiree medical benefits, and compensated absences (e.g., sick time accrued by employees).

The City's workers' compensation and liability claims will be fully funded as a liability against the City's various funds. The amount of liability will be adjusted annually at year-end to reflect the most recent actuarially determined contingent liability amount. The City will also recognize and fund the full liability of accrued vacation for employees.

### **Street Improvement Fund**

An unreserved, undesignated fund balance will be maintained for street improvements in an amount sufficient to provide adequate financing resources for capital projects in the five year Capital Improvement Program. Projected reserves during the five-year planning period should not fall below \$100,000 as a reserve for unanticipated street repair emergencies.

### **Water Utility Fund**

The working capital in the water utility enterprise fund should be maintained at a level to provide for unanticipated emergencies, e.g. water main break repairs, pump station repairs, etc., and for future capital projects envisioned in the five-year Capital Improvement Program. The City will attempt to maintain a working capital reserve of approximately \$1.0 million for the above contingencies and to protect water customers from severe annual rate adjustments.

### **Sewer Utility Fund**

The working capital in the sewer utility enterprise fund should be maintained at a level to provide for unanticipated emergencies, e.g. sewer main break repairs, pump station repairs, etc., and for future capital projects envisioned in the five-year Capital Improvement Program. The City will attempt to maintain a working capital reserve of approximately \$1.0 million for the above contingencies and to protect sewer utility customers from severe annual rate adjustments.

## **Redevelopment Funds**

An unreserved, undesignated fund balance will be maintained for general improvements, or assistance in providing capital financing to the general fund, other capital project funds, or utility funds, in an amount sufficient to provide adequate financing resources for capital projects in the five-year Capital Improvement Program. Projected reserves during the five-year planning period should not fall below \$100,000 as a reserve for unanticipated emergencies or for economic development opportunities.

## **FISCAL POLICIES**

### **GENERAL FINANCIAL GOALS**

1. To maintain a financially viable City that can maintain an adequate level of municipal services.
2. To maintain financial flexibility in order to be able to continually adapt to local and regional economic change.
3. To maintain and enhance the sound fiscal condition of the City.

### **OPERATING BUDGET POLICIES**

4. The City will adopt a balanced budget by June 30th of each year.
5. The City Manager will prepare a budget calendar at the beginning of the budget preparation process each year.
6. An annual base operating budget will be developed by accurately and realistically projecting revenues and expenditures for the current and forthcoming fiscal year.
7. During the annual budget development process, the existing base budget will be thoroughly examined to assure removal or reduction of any services or programs that could be eliminated or reduced in cost.
8. Annual operating budgets will provide for the cost of operations of new capital projects.
9. The City will avoid budgetary and accounting procedures which balance the current budget at the expense of future budgets unless the use of reserves are expressly authorized by the City Council.

### **REVENUE POLICIES**

10. The City will try to maintain a diversified and stable revenue system to shelter it from short-term fluctuations in any one revenue source.
11. Revenue estimates are to be accurate and realistic, sensitive to both local and regional economic conditions.
12. The City will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental, and statistical analysis as appropriate.

13. User fees will be reviewed annually for potential adjustments to recover the full cost of services provided, except when the City Council determines that a subsidy is in the public interest.

14. One-time revenues will be used for one-time expenditures only, including capital outlay and reserves.

### **EXPENDITURE POLICIES**

15. The City will maintain levels of service, as determined by the City Council, to provide for the public well-being and safety of the residents of the community.

16. Employee benefits and salaries will be maintained at competitive levels.

17. Fixed assets will be maintained and replaced as necessary, minimizing deferred maintenance.

18. The City will develop and use technology and productivity enhancements that are cost effective in reducing or avoiding increased personnel costs.

### **UTILITY RATES AND FEES**

19. Water and sewer utility customer rates and fees will be reviewed annually.

20. The City will set fees and user charges for each utility fund at a level that fully supports the total direct and indirect cost of the activity, including depreciation of assets, overhead charges, and reserves for unanticipated expenses and capital projects.

### **CAPITAL BUDGET POLICIES**

21. The City will make all capital improvements in accordance with an adopted and funded capital budget from an approved five-year Capital Improvement Program.

22. The City will develop an annual five-year Capital Improvement Program which includes design, development, implementation, and operating and maintenance costs.

23. The City will coordinate the development of the five-year CIP and the annual capital budget with the development of the annual operating budget.

24. The CIP will identify the estimated full cost and potential funding sources for each proposed capital project, including annual operating cost estimates associated with the project, prior to submitting proposed projects for approval.

## **DEBT POLICIES**

25. The City will limit long-term debt to only those capital improvements that cannot be financed from current revenue sources.
26. The City will utilize debt financing for projects which have a useful life that can reasonably be expected to exceed the period of debt service for the project.
27. The City will minimize costs and liabilities to the City when sponsoring debt financing.
28. The City may utilize interfund loans rather than outside debt to meet short term cash flow needs.

## **RESERVE POLICIES**

29. The City will develop and annually review reserve guidelines, to protect the City in emergencies and from future uncertainties, and to finance unforeseen opportunities and/or requirements.
30. Unreserved, undesignated fund balances will be maintained in the general fund and capital projects funds in accordance with reserve guidelines established by the City Council, to provide for revenue and expenditure budget fluctuations, unanticipated emergencies, economic uncertainties, economic development opportunities, and future capital projects.
31. The City will maintain restricted reserves as may be required for bond security, and designated reserves and liability accounts for liability claims, workers' compensation claims, accrued vacation, vested accrued sick leave, and other lawfully imposed liabilities of the City.
32. The City will maintain working capital in the water and sewer utility enterprise funds in accordance with reserve guidelines established by the City Council.
33. The City will maintain working capital in an equipment management fund, set up as an internal service fund, to enable the timely replacement of vehicles and equipment as cost.

## **INVESTMENT POLICIES**

34. The City Treasurer will annually render to the City Council a copy of the City's Investment Policy for review.

## **ACCOUNTING, AUDITING, AND FINANCIAL REPORTING POLICIES**

35. The City's accounting and financial reporting systems will be maintained in conformance with generally accepted accounting principles as they apply to governmental accounting.
36. Periodic financial reports and status reports will be submitted to the City Council and will be distributed to departments and be made available to the public.
37. Full disclosure will be provided in general financial statements and bond representations.
38. An annual audit will be performed by an independent public accounting firm with the subsequent issuance of a Comprehensive Annual Financial Report.

## **BUDGET POLICY FOR REVENUE RECOGNITION ON THE CITY/AGENCY INVESTMENT PORTFOLIO**

The City's budget policies with regard to recognizing investment earnings on the City's investment portfolio have historically mirrored accounting principles used for financial statements. The Governmental Accounting Standards Board (GASB) has revised accounting principles for financial statements, beginning in FY 1998. The policy will allow the City to continue past budget practices with regard to the treatment of investment revenue and related assets. Budgeted investment revenue would continue to be based on anticipated realized investment income and the budgetary fund balance carry forward would continue to be based on valuing investments at amortized cost (original cost plus or minus amortized discounts or premiums and accrued interest) unless the value is permanently impaired due to issuer credit worthiness issues or the City Treasurer's inability to hold investments to maturity.

The new accounting principles state that, for financial statement purposes, Investments be valued at "fair value". The fair value of an investment is normally the market value. The new accounting principles also require that investment revenues include not only realized interest, but also the "paper" gains and losses arising from differences between the cost of securities and the fair value of the securities. These "paper" gains and losses are also known as unrealized gains and losses. The fair value of investments is almost entirely dependent upon changes in market interest rates. When interest rates increase after an investment is purchased, the fair value of that investment decreases. Conversely, when interest rates decline after an investment is purchased, the fair value increases. The magnitude of the increase or decrease in fair value is dependent upon the size of the investment, how much interest rates changed, and the length of time until the investment matures. Due to the volatility in interest rates, it is impossible to accurately estimate the magnitude of annual unrealized gains or losses which will be included in future financial statements.

The paper gains and losses will, for the most part, never be realized. Realization of gains would require liquidation of a portion of the City's investment portfolio. Realization of all "paper" losses would only occur if the entire portfolio was liquidated. If such liquidations do not occur and investments are held to maturity, the paper gains and losses are not realized because the amortized cost is the amount actually received from the issuer at the maturity date.

### *Accounting vs Budgetary Treatment of Investment Earnings:*

Historically, budgets adopted by the City Council / Agency Board have included as a resource the carryover fund balance from the prior year. The fund balance used for budget purposes is the same as the fund balance available reported in the City's annual audited financial statements. In addition, annual budgets include estimated investment revenue which is based upon anticipated realized investment earnings. The practice

used for budgeting has been the same as was used for accounting for investment activities.

Effective for FY 1997-98, Generally Accepted Accounting Principles (GAAP) for financial statements have been amended to require that investment assets be stated at "fair value" (market) and that investment income reflect the fluctuation in the fair value of investments from year to year. Currently investments are valued at amortized cost and investment income reflects "realized" investment earnings. Since continuation of existing budgeting practices will not be consistent with the new accounting principles, during FY 98-99 the Council/Board approved this proposed budgeting policy.

Variances between the cost of investments and the fair value of investments shall not be considered budgetary resources or uses of resources unless the value of investments is permanently impaired. Such recognition for budgetary resources would only be due to decreased issuer credit worthiness or if the City/Agency Treasurer determined cash flows warranted liquidating investments before the maturity date.

# CITY OF MILPITAS INVESTMENT POLICY

## POLICY OVERVIEW

### PURPOSE

The purpose of this policy is to establish overall guidelines for the management and investment of the City of Milpitas (the City) unexpended funds under authority granted by the City Council. This policy is in compliance with the provisions of the California Government Code, Sections 53600 through 53659, the authority governing investments for municipal governments.

### INVESTMENT OBJECTIVES

The primary objectives of this investment policy, in order of priority, are safety, liquidity, and yield:

- 1) **Safety** - Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. This objective shall be accomplished by mitigating credit risk and market risk.
- 2) **Liquidity** - The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This objective shall be accomplished by structuring the portfolio so that securities mature concurrently with anticipated needs. The portfolio shall consist largely of securities with active secondary or resale market. Furthermore, a portion of the portfolio may be placed in money market mutual funds or Local Agency Investment Fund (LAIF) which offer same day liquidity for short-term funds.
- 3) **Yield** - The investment portfolio is designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into consideration the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Nevertheless, investment performance shall be continually monitored and evaluated by the City Treasurer by comparison with other investment portfolio benchmark yields.

### SCOPE

The investment policy applies to all financial assets of the City of Milpitas as accounted for in the Comprehensive Annual Financial Report (CAFR), including but not limited to the funds listed below:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Debt Service Fund
- Enterprise Funds
- Internal Service Fund
- Trust and Agency Funds
- Any new fund created by the City Council unless specifically exempted with the exception of the following:
  - 1) The City's Deferred Compensation Plan is excluded because it is managed by a third party administrator and invested by individual plan participants.

- 2) Proceeds of debt issuance shall be invested in accordance with the investment objectives of this policy. However, such proceeds are generally invested in accordance with permitted investment provisions of their specific bond indentures. If the City Treasurer determines that the matching of bond reserve fund with the maturity schedule of an individual bond issue is prudent, the investment policy authorizes extending beyond the five year maturity limitation as outlined in this document.

## **STANDARDS OF CARE**

- 1) **Prudence** - The City investment officials shall act as a fiduciary subject to the Prudent Investor Standard. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The City Treasurer and other individuals assigned to manage the investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.
- 2) **Ethics and Conflict of Interest** - Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or could impair their ability to make impartial investment decisions. City employees involved in the investment process shall disclose to the City Manager any material financial interest in financial institutions that conduct business within the jurisdiction. They shall further disclose any large personal financial/investment positions that could affect the performance of the investment portfolio.
- 3) **Delegation of Authority** - Authority to manage the investment program is granted to the City Treasurer and derived from Section VI-1-3.04 of the City of Milpitas Municipal Code. Under the oversight of the City Treasurer, responsibility for the operation of the investment program may be delegated to the Finance Administration staff, who shall act in accordance with established written procedures and internal controls consistent with the investment policy. The City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of the subordinate staff members. The system of internal controls includes separation of duties, custodial safekeeping, avoidance of physical delivery securities, development of wire transfer agreement, and clear delegation of authority to subordinate staff members.

## INVESTMENT GUIDELINES

### SAFETY OF PRINCIPAL

Safety of principal is the primary objective of The City. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker/dealer default or erosion of market value. The City shall seek to preserve principal by mitigating the two types of risk, credit risk and market risk:

**Credit risk**, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the City's capital base and cash flow.

**Market risk**, defined as market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by limiting the average maturity of the City's investment portfolio to two years, the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis eliminating the need to sell securities prior to maturity and avoiding the purchase of long term securities for the sole purpose of short term speculation.

### LIQUIDITY

The City's financial portfolio shall be structured in a manner to ensure that the securities mature concurrent with anticipated cash demands. The portfolio should consist largely of securities with an active secondary or resale market to meet any unanticipated cash demands. A portion of the portfolio may be placed in money market mutual funds or LAIF which offer same day liquidity for short-term funds.

It is the full intent of the City to hold all investments until maturity to ensure the return of all invested principal. However, securities may be sold prior to maturity under the following circumstances:

- A security with declining credit may be sold early to minimize loss of principal,
- A security swap would improve the quality, yield, or target duration in the portfolio, or
- Liquidity needs of the portfolio require that the security be sold.

### INVESTMENT PARAMETERS

**1) Diversification** - The investment shall be diversified by:

- limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
- limiting investment in securities that have higher credit risks,
- investing in securities with varying maturities, and
- continuously investing a portion of the portfolio in readily available funds such as LAIF or money market mutual funds to ensure that appropriate liquidity is maintained in order to meet unanticipated cash demands.

**2) Maximum Maturities** - To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five (5) years from the date of purchase. The intent to invest in securities beyond the five-year maturity limitation shall be disclosed in writing to the City Council no less than 3 months prior to the investment. As a general rule, the weighted average maturity of the investment portfolio will not exceed two years. Reserve funds established by the issuance of bonds and other funds with longer-term investment horizons may be invested in securities exceeding five years if the maturity of such investments are made to coincide with the expected use of funds.

- 3) **Competitive Bidding** - It is the policy of the City to require competitive bidding for investment transactions that are not classified as "new issue" securities. For the purchase of non "new issue" securities and the sale of all securities at least three bidders must be contacted. Competitive bidding for security swaps is also recommended, however, it is understood that certain time constraints and broker portfolio limitations exist which would not accommodate the competitive bidding process. If time or portfolio constraining condition exists, the pricing of the swap should be verified to current market conditions and documented for auditing purposes.

### **PERFORMANCE EVALUATION/BENCHMARK**

- Investment performance is continually monitored and evaluated by The City Treasurer. Investment performance statistics and activity reports are prepared on a quarterly basis for presentation to the City Manager and City Council within 30 days of the end of the quarter.
- The investment portfolio benchmark yield shall be the average yield of previous year and current year two year U.S. Treasury notes for the quarter just ended. This benchmark yield coincides with the City's intended weighted average maturity of two years.

### **SAFEKEEPING OF SECURITIES**

- To protect against fraud or embezzlement or losses caused by collapse of an individual securities dealer, all securities owned by the City shall be held in safekeeping by a third party bank trust department, acting as agent for the City under the terms of a custody agreement or master repurchase agreement. All trades executed by a dealer will settle delivery vs. payment (DVP) through the City's safekeeping agent.
- Securities held in custody for the City shall be audited by the City's internal auditor quarterly to verify investment holdings.

### **INTERNAL CONTROL**

The City Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits to be derived and that the valuation of costs and benefits requires estimates and judgments by management.

The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and record keeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third party custodian

### **REPORTING**

- The City Treasurer shall review and render quarterly reports to the City Manager and City Council which shall include the par and dollar amount of the investment, the classification of the investment, the percentage of the total portfolio which each type of investment represents, the name of the

institution or entity, the rate of interest, the maturity date, the current market value, and the source of the market value.

- Statement that the projected cash flow is adequate to meet expected obligations over the next six months.
- The weighted average maturity of the investment portfolio.
- The average weighted yield to maturity of the portfolio as compared to the applicable benchmark.
- Statement of compliance with the investment policy.
- The report is due within 30 days of the end of the quarter.
- The City Manager may, at his discretion, require this reporting on a monthly basis based upon market conditions.

### **QUALIFIED BROKER/DEALERS**

- The City shall transact business with financial institutions and security broker/dealers after careful review of their qualifications and creditworthiness. All dealers who desire to do business with the City shall provide the necessary information (e.g. audited financial statements, proof of state registration, proof of National Association of Securities Dealers certification, etc.) from which the City can determine their creditworthiness, the existence of any pending legal action against the firm or the individual broker as well as an understanding of the security markets that they service.
- The City Treasurer shall annually send a copy of the current investment policy to all financial institutions and broker/dealers approved to do business with the City. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the City's investment policies and intends to sell the City only appropriate investments authorized by this investment policy.

### **COLLATERAL REQUIREMENTS**

Collateral is required for investments in non-negotiable certificates of deposit and repurchase agreements. In order to reduce market risk, the collateral level shall be at least 102% of market value of principal and accrued interest and marked-to-market weekly. Securities acceptable as collateral shall be the direct obligations of, or are fully guaranteed as to principal and interest by the United States or any agency of the United States.

### **AUTHORIZED INVESTMENTS**

Investment of City funds is governed by the California Government Code Sections 53600 et seq. Within the context of the limitations, the following investment are authorized, as further limited herein:

- 1) **United States Treasury Bills, Bonds, and Notes** or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio which can be invested in this category, though a five-year maturity limitation is applicable.
- 2) **Federal Agency Obligations** - Obligations issued by the Federal Government agencies such as Government National Mortgage Association (GNMA), the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Student Loan Marketing Association (SLMA), and the Federal Home Loan Mortgage Corporation (FHLMC). There is no percentage limitation of the portfolio which can be invested in this category, although a five-year maturity limitation is applicable.
- 3) **Bills of Exchange/Time Drafts**- Bills of exchange or time drafts drawn on and accepted by commercial banks, otherwise known as banker's acceptances. Purchase of banker's acceptances may not exceed 180 days maturity or 20% of the cost value of the portfolio. Furthermore, no more

than \$5 million or 10% of the cost value of the portfolio may be invested in the banker's acceptances of any one commercial bank.

- 4) **Commercial Paper** rated P1 by Moody's Investor Services and A1 by Standard & Poors, issued by domestic corporations having assets in excess of \$500,000,000 and having an AA or better rating on its' long term debentures as provided by Moody's and Standard & Poors. Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10% of the outstanding paper of the issuing corporation. Purchases of commercial paper may not exceed 15% of the cost value of the portfolio.
- 5) **Negotiable Certificates of Deposit** issued by nationally or state chartered banks, state or federal savings institutions, or state-licensed branch of foreign banks. Purchases of negotiable certificates of deposit may not exceed 30% of the cost value of the portfolio. A maturity limitation of two years is applicable.
- 6) **Repurchase Agreements** - Repurchase agreements may be made on any investment authorized by this investment policy. The maturity of the repurchase agreements shall not exceed one year. The market value of the securities used as collateral for the repurchase agreements shall be monitored by the investment staff weekly and shall not be allowed to fall below 102% of the value of the repurchase agreement. A Master Repurchase agreement is required between the City and the dealer for all repurchase agreements transacted.
- 7) **Time Deposits** - Time deposits, non-negotiable and collateralized in accordance with the California Government Code, may be purchased through banks or savings and loan associations. Since time deposits are not liquid, no more than 10% of the investment portfolio may be invested in this investment type. A maturity limitation of two years is applicable.
- 8) **Medium-Term Corporate Notes** issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States with a maximum maturity of five years may be purchased. Securities eligible for investment shall be rated AA or better by Moody's and Standard & Poor's (S&P) rating services. Purchase of medium-term notes may not exceed 30% of the cost value of the portfolio and no more than 10% of the cost value of the portfolio may be invested in notes issued by one corporation. Commercial paper holdings should also be included when calculating the 10% limitation.
- 9) **Local Agency Investment Fund (LAIF)** - a State of California managed investment pool may be used up to the maximum permitted by California State Law.
- 10) **Money Market Mutual Funds** - Mutual funds invested in U.S. Government securities are permitted under this policy and under the California Government Code Section 53601. In order to be eligible for investment under this section, an investment objective of such a fund must be the maintenance of a price per share of \$1.00. Investment in such funds shall not exceed 20% of the City's total portfolio and no more than 10% of the City's total portfolio may be invested in any one mutual fund. In addition, either one of the following criteria must be met:
  - The fund shall have achieved a rating of Aaa by Moody's and AAA by S&P, or
  - shall have retained an advisor who is registered or exempt from registration with the Security Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).

For both the LAIF and Money Market Mutual Funds investment, a thorough investigation of the investment pool is required on a continual basis. Periodically, these funds will be required to update their responses to an Investment Pool Questionnaire. The types of investment and average maturity as reported by LAIF on their monthly investment reports and by the Money Market Mutual Funds on their semi-annual reports

will be examined closely to ensure that the criteria for qualifying these investment pools remain unchanged.

**11) Security Swaps** - The City may take advantage of security swap opportunities to improve the overall quality, yield or target duration of the portfolio. A swap that improves the portfolio yield may be selected even if the transactions result in an accounting loss. Documentation for swaps will be included in the City's permanent investment file documents.

**12) Ineligible Investments** - Ineligible investments are those that are not described herein, including but not limited to, common stocks, reverse repurchase agreements, inverse floaters, range notes, mortgage derived interest only strips, derivatives securities, or any security that could result in zero interest accrual.

#### **MAXIMUM INVESTMENT MATURITY AND PERCENTAGE**

The following matrix of maximum maturity and percentage limits, by instrument, are established for the City's total pooled funds portfolio:

<b>Investment Type</b>	<b>Maturity</b>	<b>Percentage</b>
Repurchase Agreements	1 Year	0 to 100%
Local Agency Investment Fund	Upon Demand	\$30,000,000 per account
U.S. Treasury Bonds/Notes/Bills	5 Years	0 to 100%
U.S. Government Agency Obligations	5 Years	0 to 100%
Bankers' Acceptances	180 Days	0 to 20%
Commercial Paper	270 Days	0 to 15%
Negotiable Certificates of Deposit	2 Years	0 to 30%
Time Certificates of Deposit	2 Years	0 to 10%
Medium-Term Corporate Notes	5 Years	0 to 30%
Mutual Funds/Money Market Funds	Upon Demand	0 to 20%

#### **LEGISLATIVE CHANGES**

Any State of California legislative action, that further restricts allowable maturities, investment type or percentage allocations, will be incorporated into the City's Investment Policy and supersede any and all previous applicable language.

#### **INTEREST EARNINGS**

All moneys earned and collected from investments authorized in this policy shall be allocated monthly to various fund accounts based on the cash balance in each fund as a percentage of the entire pooled portfolio.

#### **POLICY CONSIDERATIONS**

- 1) Exemption** - Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.
- 2) Amendments** - The City's investment policy shall be adopted by resolution of the City Council on an annual basis. This investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and yield, and its relevance to current law and financial and economic trends. Any amendments to the policy shall be forwarded to City Council for approval.

**City of Milpitas**  
**Computation of Legal Bonded Debt Margin**  
**June 30, 2003**

**ASSESSED VALUATION:**

Secured property assessed value, net of exempt real property	<u>\$9,822,837,665</u>
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BONDED DEBT LIMIT ( 3.75% OF ASSESSED VALUE) (a)	<u>\$368,356,412</u>
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**AMOUNT OF DEBT SUBJECT TO LIMIT:**

Total Bonded Debt	\$77,830,000
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Less: Tax Allocation Bonds and Certificates of Participation, not subject to limit	77,830,000
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Amount of debt subject to limit	<u>-0-</u>
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LEGAL BONDED DEBT MARGIN	<u><u>\$368,356,412</u></u>
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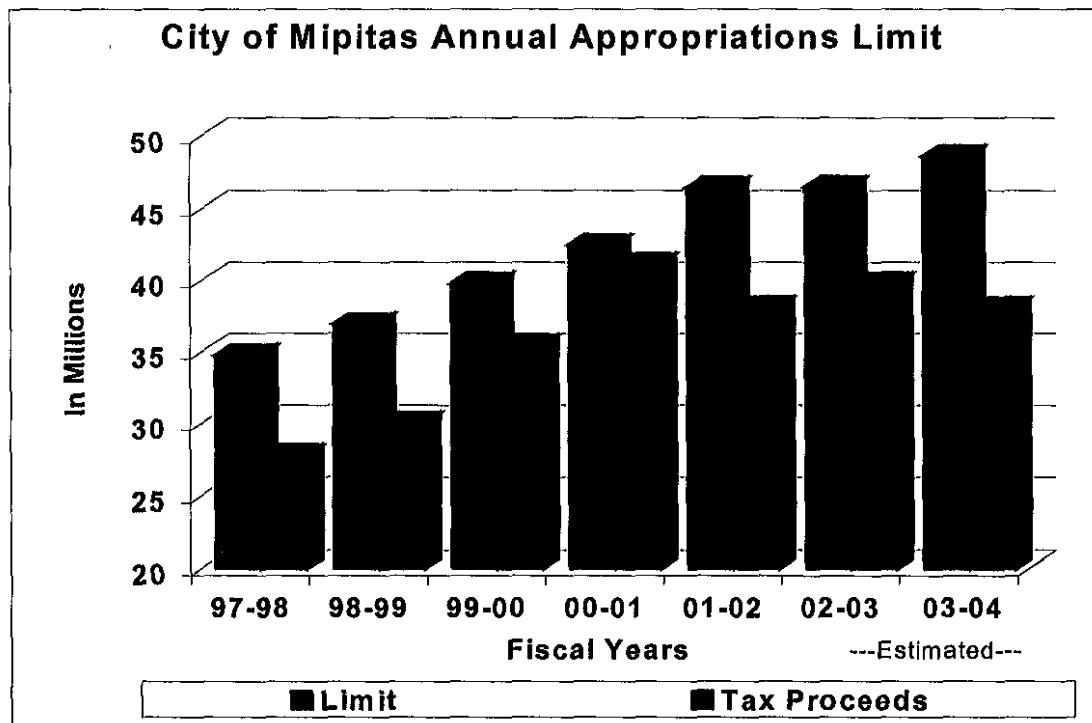
- (a) California Government Code, Section 43605 sets the debt limit at 15%. The Code section was enacted prior to the change in basing assessed value to full market value when it was previously 25% of market value. Thus, the limit shown as 3.75% is one-fourth the limit to account for the adjustment of showing assessed valuation at full cash value.

## GANN LIMIT ANALYSIS

Article XIII B of the California State Constitution, more commonly referred to as the Gann Initiative or Gann Limit, was approved by California voters in November 1979 and placed limits on the amount of proceeds of taxes that state and local governmental agencies can receive and spend each year. If an agency receives more revenue than the Appropriations Limit, the excess revenue must be returned to the taxpayers through a tax reduction or refund within the next two years. Alternatively, the agency can increase its Appropriations Limit through voters' approval.

Each year's limit is based on the amount of tax proceeds that were authorized to be spent in Fiscal Year 1978-79 in each agency, modified for changes in inflation and population in each subsequent year. The City Council must adopt, by resolution, an Appropriations Limit for the following year. Using the population and per capita personal income change factors provided by the State of California, the City's Appropriations Limit for FY2003-04 has been computed to be \$48,662,062. Appropriations subject to the limitation in FY2003-04 budget total \$38,134,333 that is \$10,527,729 less than the computed limit.

The following chart shows the annual Appropriations Limit and the tax proceeds received since Fiscal Year 1997-98. The City has not exceeded its annual Appropriations Limit in any single fiscal year. Except for the extraordinary growth in tax proceeds experienced in Fiscal Year 2000-01, the City has been under 90% of the limitation and should not be impacted by the Appropriations Limit.



\_\_\_\_\_ 2003-2004 FINAL BUDGET \_\_\_\_\_

\_\_\_\_\_ CITY OF MILPITAS, CALIFORNIA \_\_\_\_\_

CITY OF MILPITAS  
BUDGET PREPARATION TIMELINE  
FOR THE  
2003-2004 FINANCIAL PLAN

<u>DATE</u>	<u>TASK</u>	<u>RESPONSIBILITY</u>
10/22/02	Meeting with Finance and Engineering to plan 2004-2008 CIP process	CIP Project Manager/Director of Financial Services/ City Engineer
10/31/02	Review current Project status with Project Managers	CIP Program Manager
11/04/02 – 11/29/02	IS meets with departments and divisions to discuss CIPs and technology requests for FY 03-04	Information Services Director Deputy Information Services Director All Departments
Nov '02	Meeting with CM and ACM to review proposed 2004-2008 CIP process	CIP Program Manager
11/08/02	Engineering to complete FY 03-04 CIP Proforma	CIP Program Manager
11/08/02	Meeting with Finance and Engineering to review CIPs that should be moved to the Operating Budget	CIP Project Manager/Director of Financial Services/ City Engineer
11/15/02	Preliminary funding analysis for CIP projects and Preliminary Fund Balances for CIP projects and Water, Sewer and Recycled Water Funds	Finance/Accounting
11/21/02	Distribute forms for new Capital Improvement Program (CIP) project suggestions.	CIP Program Manager

## BUDGET PREPARATION SCHEDULE

<u>DATE</u>	<u>TASK</u>	<u>RESPONSIBILITY</u>
12/18/02	Meetings with Senior Staff to discuss programs, service levels (Accomplishments and Performance Measures) and budget process Preliminary discussion regarding new positions	City Manager Director of Financial Services Senior Staff
12/19/02	New and Active CIP Project submissions due (No new projects after this date)	All Departments
Jan '03	CIP small group meetings by funding source to select and prioritize projects <ul style="list-style-type: none"> <li>• Streets 01/08 and 01/09</li> <li>• Community Imp 01/15 and 01/16</li> <li>• Parks 01/22</li> <li>• Water 01/23</li> <li>• Sewer 01/29</li> <li>• Storm 01/30</li> </ul>	All Departments
01/02/03- 02/07/03	Milpitas customer wastewater mass emission data supplied to the San Jose/Santa Clara Water Pollution Control Plant to be used for Sewage cost allocation projections	City Engineer
01/10/03	03-04 Budget Preparation "Kick-Off" meeting with department Budget Liaisons	Director of Financial Services, Budget Team, Budget Liaisons
01/13/03- 01/31/03	Commission Staff Liaisons advise Commission, Committees and Boards of Budget Preparation Guidelines	Budget Liaisons
01/17/03	<ul style="list-style-type: none"> <li>• Position Summary Corrections due to Finance</li> <li>• Equipment Fund Inventory changes due to Accounting (Sharon Nakamura)</li> </ul>	All Departments

## BUDGET PREPARATION SCHEDULE

<u>DATE</u>	<u>TASK</u>	<u>RESPONSIBILITY</u>
01/21/03- 01/24/03	Conduct Revenue discussions with Departments	Director of Financial Services
01/28/03	Proformas distributed to Departments/Divisions	Budget Team
01/31/03	<ul style="list-style-type: none"><li>• 8 – 10 Accomplishments due to City Manager, with a copy to Finance</li><li>• Requests for new positions, reclassifications and reallocation of existing positions due to Finance, with the City Manager's initials. Finance will forward copies to HR</li><li>• Capital Outlay Requests due to Finance</li></ul>	All Departments
01/31/03	Utility Engineering and Finance meet to discuss: <ul style="list-style-type: none"><li>• fund status and rate strategy</li><li>• 01/02 ending balance update</li><li>• mid-year anticipated adjustments</li><li>• utility fund balances</li><li>• cost allocation adjustments</li><li>• Utility Rate Subcommittee Session</li></ul>	Director of Financial Services, Utility Engineer
01/31/03- 02/21/03	Review Personnel Requests	HR Director
02/01/03	Complete summary of all small group meetings CIP projects Distribute summary of small group meetings to Management Team and departments	CIP Program Manager
02/04/03	Conduct preliminary fund status and Financial Master Plan recommendations with Utility Rate Subcommittee	City Engineer
02/04/03	Begin draft CIP document	CIP Project Team

## BUDGET PREPARATION SCHEDULE

<u>DATE</u>	<u>TASK</u>	<u>RESPONSIBILITY</u>
02/11/03	Proformas due to Finance, include one sheet for explanation of enhancements or new programs	All Departments
02/11/03	Meeting to discuss Capital Outlay Requests	Accounting Services Mgr, Purchasing Agent, Veh Maint Suprv, Admin Analyst
02/10/03- 02/14/03	Follow-up meetings with Senior Staff, as needed, to discuss results of Financial constraints on proposed CIP	Director of Financial Services, CIP Program Manager
02/13/03	Meeting to discuss Capital outlay requests that should rollup to CIP	Director of Financial Services, CIP Program Manager
02/18/03	Mid-year financial Status Report to Council on the 2002-03 Financial Plan: <ul style="list-style-type: none"> <li>• Mid-year budget adjustments</li> <li>• Set Budget Hearing Dates</li> </ul>	Director of Financial Services
02/18/03	Mid-year CIP Status Report to Council Preview of next year's CIP	CIP Project Manager
02/18/03	City Manager and Assistant City Manager meeting to review CIP financial constraints	City Manager, Assistant City Manager, Director of Financial Services, CIP Program Manager
02/20/03	City Manager and Assistant City Manager review Proformas	City Manager, Assistant City Manager, Director of Financial Services
02/22/03	HR completes desk audit of new personnel requests and provides those results to Finance	HR Director

## BUDGET PREPARATION SCHEDULE

<u>DATE</u>	<u>TASK</u>	<u>RESPONSIBILITY</u>
02/28/03	<ul style="list-style-type: none"> <li>All budget preparation information due to the Finance Department - narratives, org charts, and Department summaries</li> <li>Data entry in the BTI is complete including detail for temporary positions/salaries, supplies, contractual services, meetings and memberships, training and capital outlay</li> </ul>	All Departments
03/03/03-03/07/03	Review of department budget submittals, provide feedback to departments. Prepare budget reports and distribute to City Manager and Departments	Director of Financial Services Budget Team
03/04/03	Presentation of Financial Master Plan to City Council	Utility Engineer
03/04/03	Distribute Proposed Draft CIP Plan to Management Team and Project Managers (Informational and for comments)	CIP Program Manager
03/10/03	No further staff changes to CIP requests	CIP Team
03/10/03-03/14/03	Department Worksessions - Review Operating Budget requests with the respective department staff	All Departments
	City Council/City Manager/ RDA & Econ Dev City Clerk's Office Information Services Human Resources City Attorney's Office Finance Public Works Engineering Building Planning, Recreation and Neigh Services Recreation Police Department Fire Department	

## BUDGET PREPARATION SCHEDULE

<u>DATE</u>	<u>TASK</u>	<u>RESPONSIBILITY</u>
03/13/03	City receives preliminary Water Pollution Control Plant O & M and future improvements cost projections	Utility Engineer
03/17/03- 03/21/03	Meet to discuss Draft Rate Analysis prior to the Utility Rate Subcommittee Meeting	City Engineer, Utility Engineer, Finance
03/17/03- 03/21/03	Follow-up meetings with Senior Staff, as needed, to discuss feedback from Departmental Worksessions	City Manager Director of Financial Services, Budget Team
03/21/03	Complete final CIP revisions	CIP Program Manager
03/21/03	Debt Service Financing Review	Director of Financial Services, Asst. Director of Financial Services
03/24/03	Distribute Proposed 2004-2008 CIP to City Council and Planning Commission	CIP Program Manager
03/25/03	Submit preliminary water, recycled water and sewer rate recommendations to Utility Rate Subcommittee for review	City Engineer
03/31/03- 04/04/03	Final review of proposed operating budget	All Departments
03/31/03- 04/11/03	Finance Budget Reconciliation (Operating budget, CIP and Water Rate Analysis)	Accounting Services Manager, Budget Team
04/02/03	Conduct Utility Rate Subcommittee session	Utility Engineer

## BUDGET PREPARATION SCHEDULE

<u>DATE</u>	<u>TASK</u>	<u>RESPONSIBILITY</u>
04/07/03	Review proposed Parks C I P Budget	PRCRC
04/09/03	Review Proposed CIP for information and General Plan conformance findings	Planning Commission CIP Program Manager
04/11/03	Publish Proposed 2004-2008 CIP	CIP Program Manager
04/14/03- 04/18/03	Final review of proposed budget	City Manager Director of Financial Services, Budget Team, Finance Dept.
04/15/03	Review the recommended 2004-2008 Capital Improvement Program	City Council
04/16/03	Water wholesale rates established by SFPUC/SCVWD and recycled water wholesale rate by SJ/SC WPCP	City Engineer
04/22/03	Publish notice of public hearings regarding the Operating Budget and Capital Improvement Program	City Clerk
05/02/03	Distribute the Proposed 2003-04 Operating Budget and Financial Plan	Director of Financial Services
05/06/03	Hold public hearing on the recommended water, recycled water and sewer rates	City Council
05/13/03 and 05/15/03	Public hearing on the recommended 2003-2004 Proposed Budget and Financial Plan and the 2004-2008 Capital Improvement Program	City Council

## BUDGET PREPARATION SCHEDULE

<u>DATE</u>	<u>TASK</u>	<u>RESPONSIBILITY</u>
06/03/03	Adopt the recommended water, recycled water and sewer rates	City Council
06/03/03	Adopt the 2003-04 Budget and the 2004-2008 Capital Improvement Program	City Council
06/28/03	Load Approved Budget	Finance
09/02/03	Publish Final 2003-04 Annual Budget and Final 2004-2008 Capital Improvement Program	City Council

## List of Funds

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100	General Fund	332	2000 Technology COPs
102	Library Fund	390	Redevelopment Project Fund
104	Cable Rebate	391	Redevelopment CIP
120	Browning Ferris Holding Fund	392	1997 RDA Tax Allocation Bonds CIP
130	Private Job Developer Deposits	393	2000 RDA TABs CIP
197	Holding Accounts	400	Water Maintenance and Operation Fund
198	Payroll Clearing Account	401	Water CIP
199	Allocation Fund	402	Water Line Extension Fund
221	Gas Tax Fund	406	Recycled Water Fund
235	95-1 Lighting and Landscape Maint. District	450	Sewer Maintenance and Operation Fund
236	98-1 Lighting and Landscape Maint. District	451	Sewer CIP
250	Housing and Community Development Fund	452	Treatment Plant Construction Fund
251	Housing and Community Dev Loan Fund	455	Sewer Replacement Fund
261	Supplemental Law Enforcement Services Fund	456	So Bay Water Recycling
262	State Asset Seizure	500	Equipment Management Fund
263	Federal Asset Seizure	602	Deferred Compensation
264	Local Law Enforcement Block Grant	613	Local Improvement District #13
266	COPs in School	614	Local Improvement District #14
275	Abandoned Vehicle Abatement	618	Local Improvement District #18
280	Solid Waste Services	619	Local Improvement District #19
281	Solid Waste Reduction	640	Employee Benefit Fund
290	Housing Reserve Fund	681	LID #18 - Reassessment & Refunding
310	Street Improvement Fund	682	LID #18 - 1998 Bond Series A
311	Street CIP	683	LID #20 - 1998 Bond Series A
320	Park Improvement Fund	684	Refunding of LID #9R and LID #12R
321	Park CIP	691	Senior Advisory Commission
322	Midtown Park Fund	792	1997 Tax Allocation Bonds
330	General Government	793	2000 Tax Allocation Bonds
331	General Government CIP	794	GMBA Sales Tax Revenue Bonds

## FUND DESCRIPTIONS

The basic accounting and reporting entity for a City is a fund. A fund is "an independent fiscal and accounting entity used to record all financial transactions related to the specific purpose for which the fund was created". Funds are established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Funds used in government are classified into three broad categories: governmental, proprietary and fiduciary. Governmental funds include activities usually associated with a typical state or local government's operations (public safety, general government activities, etc.). Proprietary funds are used in governments to account for activities often found in the private sector (utilities, stadiums, and golf courses are prime examples). Trust and Agency funds are utilized in situations where the government is acting in a fiduciary capacity as a trustee or agent. The various funds are grouped in fund types and categories as follows:

**Governmental Funds** -- include activities usually associated with the governmental entities' operations (police, fire and general government functions).

***General Fund*** -- The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The major revenue sources for this Fund are sales taxes, property taxes, unrestricted revenues from the State, fines and forfeitures and interest income. Expenditures are made for general government activities, public safety, most street work and the other services described above.

***Special Revenue Funds*** -- Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

- **Gas Tax Fund** - was established to account for the construction and maintenance of the street system in Milpitas. Financing is provided by the City's share of state gasoline taxes.
- **Housing and Community Development Fund** - was established to account for community development block grants and expenditures.
- **Law Enforcement Services Fund** - was established to account for the proceeds from the sale of assets sold which were seized in connection with drug related arrests made by the Allied Agency Narcotic Enforcement Team (AANET) of Santa Clara County and federal asset forfeiture funds received through the Equitable Sharing program. Shared funds must be used only for specified law enforcement purposes; funds are to be used to augment law enforcement budgets, not supplant them. This fund also accounts for the Supplemental Law Enforcement Services grant and expenditures.
- **Solid Waste Reduction and Services Fund** - was established to account for landfill tipping fees allocated by Santa Clara County. The County allocates a fee of \$1 per ton to each City to be used in relation to the State of California Waste Reduction Act. Revenue is used for the implementation of future waste reduction programs to meet the future State required landfill deposits percentage reduction. The fund also accounts for special charges built into garbage rates specifically for community promotions and household hazardous waste activities. These activities support the City's ongoing efforts to meet State mandates to reduce waste.
- **Lighting and Landscape Maintenance District Fund** - was established to account for assessments collected by Santa Clara County. Revenue is used for servicing and maintaining the public landscaping and additional lighting for the district.

- **Abandoned Vehicle Abatement** - was established to account for the funds spent on the removal of abandoned vehicles in the City. The Santa Clara County's Abandoned Vehicle Abatement Service Authority is responsible for the reimbursements to the City.
- **Housing Reserve Fund** - was established by the Redevelopment Agency of the City of Milpitas to account for tax allocations set aside for the purpose of increasing or improving the City's supply of low or moderate income housing.

**Debt Service Funds** -- Debt Service Funds are used to account for financial resources to be used for the payment of principal and interest on governmental fund long-term debt. The City operates the 1997 and 2000 Tax Allocation Bond Debt Service, and the 2000 Certificates of Participation Debt Service.

**Capital Projects Funds** -- Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust Funds).

- **Redevelopment Project** - was established to account for the financing and construction activities in the redevelopment project areas.
- **Street Improvement Fund** - was established to account for the construction and maintenance of the street system in Milpitas. Financing is provided through State and federal grants.
- **General Government Fund** - was established to account for the construction and maintenance of community improvements. Capital projects previously accounted for in the General Fund has been incorporated in this fund.
- **Park Improvement Fund** - was established to account for the construction and maintenance of City parks. Financing is provided by a special parks improvement fee imposed on developments.

### **Proprietary Funds**

**Enterprise Funds** -- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the City is that the costs and expenses, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the City has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City operates the Water Utility and Sewer Utility enterprise funds.

- **Water Utility Fund** - was established to provide water services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, and billing and collection.
- **Recycled Water Fund** - was established to provide recycled water services to the businesses within a specific area of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, and billing and collection.
- **Sewer Utility Fund** - was established to provide sewer services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, financing and related debt service, and billing and collection.

**Internal Service Funds** -- Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis.

- **Equipment Management Fund** - was established to finance and account for the replacement of equipment used by City departments on a cost reimbursement basis.

### **Fiduciary Funds**

**Agency Funds** -- Agency Funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments.

- **Employee Deferred Compensation Plan** - was established to account for accumulated employee funds withheld and invested as provided by the Plan.
- **LIDs Fund** - was established to account for debt service reserves of Local Improvement Districts (LID) for which the City acts as administrator and paying agent. The City is not obligated for the debt issued by the LIDs.
- **Employee Benefit Fund** – was established to account for self-insured employee dental plan and short-term disability plan.
- **Senior Advisory Commission Fund** – was established to account for the fund raising activities of the Commission.

## **List of Departments / Divisions / Functions**

---

### **1 Policy Planning and Implementation**

- 10 City Council
  - 100 City Council
- 11 City Manager
  - 111 City Manager
  - 114 City Clerk
  - 116 RDA & Economic Development
- 41 Engineering
  - 411 Engineering Administration
  - 412 Design and Construction
  - 413 Land Development
  - 415 Traffic Engineering
  - 416 Utility Engineering
  - 430 Solid Waste
- 53 Building Inspection
  - 531 Building Inspection Services
  - 532 Plan Checking
  - 533 Building Administration
  - 534 Permit Center

### **11 Information Services**

- 14 Information Services
  - 112 Information Services

### **12 Human Resources**

- 15 Human Resources
  - 115 Human Resources

### **2 City Attorney**

- 12 City Attorney
  - 120 City Attorney

### **3 Finance**

- 30 Finance Administration
  - 300 Finance Administration
- 31 Accounting Services
  - 310 Accounting Services
- 32 Fiscal Services
  - 322 Receivables
  - 323 Utilities
- 33 Purchasing
  - 330 Purchasing

### **4 Public Works**

- 42 Public Works
  - 400 Public Works Administration
  - 421 Street Maintenance
  - 423 Utility Maintenance
  - 424 Parks Maintenance
  - 425 Trees & Landscape Maintenance
  - 426 Fleet Maintenance
  - 427 Facilities Maintenance

### **5 Planning, Recreation and Neighborhood Svcs**

- 51 Planning and Neighborhood Services
  - 511 Planning, Rec & Neigh Svcs Admin
  - 512 Planning
  - 540 Transportation
  - 551 Neighborhood Preservation
  - 552 Housing
- 45 Recreation
  - 161 Recreation Administration
  - 162 Senior Citizen Services
  - 163 Preschool
  - 164 Camp Stay and Play
  - 165 Stay and Play
  - 166 Teens
  - 167 Special Events
  - 168 Cultural Arts
  - 169 Rainbow Theatre
  - 170 General Classes
  - 171 Aquatics
  - 172 Sports and Fitness Classes
  - 173 Youth and Adult Sports
  - 174 Volunteer Services

## **List of Departments / Divisions / Functions**

---

### **7 Police Department**

- 70 Police Administration
  - 700 Police Administration
- 71 Support Services Bureau/Technical Services
  - 711 Records
  - 712 Training and Personnel
  - 713 Communications
- 72 Operations Bureau/Field Services
  - 721 Patrol Services
  - 722 Traffic
  - 723 Crossing Guards
- 73 Support Services Bureau/Special Operations
  - 714 Community Relations/Youth Services
  - 724 Investigations

### **8 Fire Department**

- 80 Fire Administration
  - 801 Fire Administration
- 81 Emergency Response Services
  - 811 Emergency Response Services Admin
  - 812 Fire Suppression and Equipment
  - 817 Emergency Medical
- 82 Fire Prevention Services
  - 821 Fire Prevention Services Admin
  - 822 Inspection/Enforcement
  - 823 Hazardous Materials Regulation
  - 824 Fire Plan Check
  - 825 Public Education
- 84 Emergency Management Services
  - 840 Emergency Management Services

### **9 Non-Departmental**

- 91 Non-Departmental
  - 910 Non-Departmental
- 92 Debt Service
  - 920 Debt Service
- 93 Equipment to be Depreciated
  - 930 Equipment to be Depreciated
- 95 Other Functions
  - 951 Capital Improvement Projects
- 98 Senior Advisory Commission
  - 981 Senior Advisory Commission

## List of Revenues

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### 300 Property Taxes

- 3010 Property Taxes-Current
  - 3010 Property Taxes-Current
  - 3011 Current-Secured Property Taxes
  - 3012 Current-Unsecured Property Taxes
  - 3531 Property Tax, Supplemental
- 3020 Property Taxes-Prior
  - 3020 Property Taxes-Prior
  - 3021 Prior-Secured Property Taxes
  - 3022 Prior-Unsecured Property Taxes
  - 3531 Property Taxes-Supplemental

### 310 Other Taxes

- 3110 Sales and Use Tax
  - 3110 Sales and Use Tax
  - 3111 .5% Sales and Use Tax
  - 3112 Prior-Sales and Use Tax
- 3120 Real Estate Transfer Tax
  - 3120 Real Estate Transfer Tax
- 3130 Franchise Tax
  - 3130 Franchise Tax
  - 3131 Electric Franchise
  - 3132 Gas Franchise
  - 3133 Garbage Franchise-Commercial
  - 3134 Garbage Franchise-Non-Commercial
  - 3135 Solid Waste-Community Relations
  - 3136 Solid Waste-Household Haz Waste
  - 3137 Nitrogen Gas Franchise
  - 3138 CATV Franchise
  - 3139 County-wide AB 939 Fees
- 3140 Business License Tax
  - 3140 Business License Tax
- 3150 Hotel/Motel Tax
  - 3150 Hotel/Motel Tax
  - 3151 Beverly Heritage
  - 3152 Embassy Suites

- 3153 Crowne Plaza
- 3154 Sheraton
- 3155 Best Western-Brookside
- 3156 Candlewood
- 3157 Comfort Inn
- 3158 Audited TOT
- 3159 Other Hotel/Motel Tax
- 3160 Days Inn
- 3161 Economy Inns of America
- 3162 Extended Stay of America
- 3163 Hampton Inn-Milpitas
- 3164 Hilton Garden Inn
- 3165 Homestead Village
- 3166 Marriott Courtyard
- 3167 Milpitas Travelodge
- 3168 Ooh La Lodge
- 3169 Residence Inn by Marriott
- 3170 Super 8
- 3171 Towneplace

### 320 Licenses and Permits

- 3200 Licenses
  - 3200 Licenses
- 3210 Building Permits
  - 3210 Building Permits
  - 3211 Plan Check Revisions
  - 3212 After Hour Plan Check
  - 3213 After Hours Inspection
  - 3214 Re-inspection
  - 3215 Dedicated Building Services
  - 3216 Mobile Home Inspections
- 3220 Haz Mat Construction Permit
  - 3220 Haz Mat Construction Permit
  - 3221 Life Safety Construction Permits
  - 3222 Haz Mat Annual Permit
  - 3223 Enforcement Penalties

## List of Revenues

3224 Hazardous Waste Fees	3520 Tax Relief
3225 Non-Point Source Permit/Inspections	3520 Tax Relief
3229 State CUPA Fees & County Haz	3521 Homeowner's Property Tax Relief
3240 Life Safety Annual Permits	3522 Business Inventory Tax Relief
3240 Life Safety Annual Permits	3530 Tax
3241 Haz Mat Construction Permits	3530 Tax
3250 Fire Inspections	3532 Off-Highway Tax
3250 Fire Inspections	3533 Cigarette Tax
3251 Building Standards/Life Safety	3540 Gas Tax
<b>330 Fines and Forfeits</b>	3540 Gas Tax
3300 Fines and Forfeits	3545 Section 2105-Gas Tax
3301 Vehicle Code Fines	3546 Section 2106-Gas Tax
3302 Other Court Fines	3547 Section 2107-Gas Tax
3303 Asset Seizures	3548 Section 2107.5-Gas Tax
3304 Hazardous Materials Fines	3550 Federal Contributions
3305 Booking Fee	3551 Federal Contributions-General Gov't
3306 NBO Violation Fees	3553 Federal Contributions-Building
3307 Impound Fees	3554 Federal Contributions-Public Works
3308 Animal Violations	3555 Federal Contributions- Eng & Plan
3309 False Alarm Fee	3556 Federal Contributions-Recreation
<b>340 Revenues from Use of Money</b>	3557 Federal Contributions-Police
3430 Investments	3558 Federal Contributions-Fire
3430 Interest Income	3560 State Contributions
3431 Pooled Investments-Interest	3561 State Contributions-General Gov't
3432 Cash with Fiscal Agents	3562 POST Grant
3433 Other Interest Income	3563 State Contributions-Building
3435 Gain on Sale of Investments	3564 State Contributions-Public Works
3436 Amortization of Discount on Investments	3565 State Contributions-Eng & Plan
<b>350 Intergovernmental Revenue</b>	3566 State Contributions-Recreation
3510 In Lieu Tax	3567 State Contributions-Police
3510 In Lieu Tax	3568 State Contributions-Fire
3511 Motor Vehicle In Lieu Tax	3569 TDA Grant
3512 State Trailer Coach In Lieu Tax	3570 County Contributions
	3571 County Contributions-General Gov't
	3572 South Bay Water Recycling Program
	3573 County Contributions-Building

## List of Revenues

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- 3574 County Contributions-Public Works
- 3575 County Contributions-Engineering & Planning
- 3576 County Contributions-Recreation
- 3577 County Contributions-Police
- 3578 County Contributions-Fire
- 3580 Other Restricted Grants
  - 3581 Other Restricted Grants-General Gov't
  - 3582 SB90 Grant
  - 3583 Other Restricted Grants-Building
  - 3584 Other Restricted Grants-Public Works
  - 3585 Other Restricted Grants-Eng & Plan
  - 3586 Other Restricted Grants-Recreation
  - 3587 Other Restricted Grants-Police
  - 3588 Other Restricted Grants-Fire
- 3590 Misc Unrestricted Intergovernmental
  - 3591 Misc Unrestricted Intergovernmental
  - 3592 ERAF Refund
- 360 Charges for Services**
  - 3600 General Government
    - 3601 General Government Service Charges
    - 3602 Sales of Maps & Documents
    - 3603 Rents, Lease & Concession
  - 3610 Overhead and Labor Reimbursement
    - 3611 PJ Overhead Charges
    - 3612 PJ Labor Reimbursement
    - 3613 PJ Vendor Reimbursement
    - 3614 Assessment for Capital Projects
    - 3615 Engineering and Planning Services
    - 3617 Zoning and Subdivision Fees
    - 3618 Sales of Maps & Documents
    - 3619 Rents, Lease & Concession
  - 3620 Water and Sewer Charges
    - 3621 Water Charges
    - 3622 Water Service Agreements
    - 3623 Metered Water Sales
    - 3624 Other Water Sales
  - 3625 Excess Water Use Charges
  - 3626 Construction Water
  - 3627 Water and Sewer Reimbursements
  - 3628 Sewer Service Charges
  - 3630 Fire Department Services
    - 3631 Paramedic Services
    - 3632 Firewatch Services
    - 3633 Fire Cost Recovery
    - 3634 Unwanted Alarms-Fire
    - 3635 Fire Enforcement-Penalties
    - 3636 Fire Enforcement-Training
    - 3637 Fire Service Charges
    - 3638 Sales of Maps & Documents
  - 3640 Police Department Services
    - 3641 Police Service Charges
    - 3643 Fingerprints
    - 3644 Sales of Maps & Documents
    - 3645 Police Cost Recovery
    - 3646 Rents, Lease & Concession
  - 3650 Recreation Services
    - 3651 Rents, Lease & Concession
    - 3652 Recreation Fees
    - 3653 Senior Nutrition Fees
    - 3654 Sales of Maps & Documents
  - 3660 Building Services
    - 3661 Sales of Documents
    - 3662 Records Retention Fee
    - 3663 Building Service Charge
    - 3664 Overhead Charges Reimbursement
  - 3670 Public Works Services
    - 3671 Public Works Service Charges
    - 3672 Public Works Cost Recovery

## List of Revenues

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### 370 Miscellaneous Revenue

#### 3710 Development

3710 Development

3711 Storm Drain Connection Fee

3712 Park Development Fees

3713 Sewer Permit Fees

3714 Treatment Plant Fees

3715 Connection Fees

3716 Fire Hydrant Fees

3717 Encroachment Permit Fees

3718 Traffic Impact Fees

#### 3720 Special Assessments

3720 Special Assessments

3721 Special Assessments-Prepayments

#### 3730 Recycling

3730 Recycling

#### 3740 Reimbursements

3741 Repayment

3742 Principal

3743 Interest Income

3744 Advance-Principal Repayment

3745 Advance-Interest Earnings

3746 HazMat Incidents

#### 3750 Donations

3750 Donations

#### 3760 Developer Contribution

3760 Developer Contribution

#### 3770 Sale of Property, Plant and Equipment

3770 Sale of Property, Plant and Equipment

3771 Fire Safe Program

### 3790 Miscellaneous Revenue

3791 Cash Over/(Short)

3792 Clearing-Various

3793 Clearing-Identified Cash

3794 Clearing-Utility

3795 Clearing-Petty Cash

3799 Miscellaneous Other Revenue

## REVENUE DESCRIPTIONS

The City of Milpitas provides many services to its residents such as Police, Fire, Parks, Recreation, etc. These services are not without cost to the taxpayer. It is the task of City Officials to produce the necessary revenue to satisfy the ever-growing demand for local services.

The City of Milpitas receives revenue from many sources to offset the costs of its operations. Revenue is received from sales taxes, property taxes, and many other sources. For each fiscal year, the City's revenues are estimated conservatively and, therefore, actual revenues received often exceed the estimated projections. This section will describe the major revenue sources available to the City. The Summary of Current Revenue by Source will provide a more detailed breakdown of all revenues. The major revenue sources are as follows:

### **Property Taxes**

**Property Taxes** -- Property tax is imposed on real property (land and permanently attached improvements, such as buildings) and tangible personal property located within the City. The tax comprises one percent of the assessed value of the property. The assessed value of real property appraised by the County Assessor in the 1975-76 assessment role value adjusted after 1975 by a two percent inflation factor per year. When property changes hands or new construction occurs, it is reassessed at its current market value.

### **Other Taxes**

**Sales and Use Tax** -- Sales and use tax is imposed on retailers for the privilege of selling, at retail, within the City limits. This tax is based on the sales price of any taxable transaction of tangible personal property. The Bradley-Burns Uniform Local Sales and Use Tax Law, adopted in 1955, extends the authority to impose local tax to counties. One percentage point of the sales tax collected by the State Board of Equalization is allocated back to the City for general purposes. This revenue is placed in the General Fund for unrestricted uses.

**Franchise Fees** -- A Franchise Fee is imposed on various utilities and organizations which permits them to use and operate those facilities within the City. In Milpitas, franchise fees are charged for Electric, Gas, Garbage, Nitrogen Gas and Cable Television franchises.

**Business License Tax** -- A Business License Tax is imposed on businesses for the privilege of conducting business within the City. Fees are based on bracketed structures according to the type of business. The fee structures are as follows: average number of employees, number of units or rooms, number of vehicles or a flat fee.

**Transient Occupancy Tax** -- The Transient Occupancy Tax in Milpitas is a ten percent (10%) tax on the cost of a hotel room and imposed on "transients" who occupy a room or rooms in a hotel, inn, motel, tourist home or other lodging facility within the City's limits.

### **Licenses and Permits**

**Building Permits** -- The City requires that building permits be obtained to ensure that structures meet specific standards as identified in the Municipal Code. The City requires various construction permits for activities such as the installation of electrical and plumbing. The City charges a fee for issuing these permits in order to recover the costs incurred.

**Fire Permits** -- The Milpitas Municipal code requires permits be obtained and inspections conducted to ensure activities regulated by the fire code meet specific standards for the protection of life, property and the environment. Activities include: high piled combustible storage, hazardous materials, assembly, and life safety inspections of licensed facilities, apartments, and hotels and motels.

### **Fines and Forfeitures**

**Vehicle Code and Other Court Fines** -- The City receives a portion of all fines assessed, in Milpitas, for infractions of the State of California Vehicle Code and may receive other court fines as directed by the County, State or Federal Courts.

**False Alarm Fees** -- Currently the Milpitas Municipal Code provides that a property may have three false alarms in a one year period. Subsequent false alarms, within a one year period, are assessed a service charge that can increase from \$300 to \$900 depending on the number of alarms.

**Booking Fees** -- Counties within California are authorized to charge a "criminal justice administrative fee" intended to cover the "reimbursement of County expenses incurred" for booking and processing of arrested persons who are brought to the County jail for booking or detention. In return, Judges may pass along the City's costs to the offender as part of their court-ordered restitution.

### **Use of Money and Property**

**Interest on Pooled Investments** -- Interest income is earned as the City invests its idle funds in various investment instruments. The goal of the City regarding investments is to ensure the safety of each investment and maintain liquidity while achieving a fair rate of return - safety, liquidity and yield - in that particular order.

### **Intergovernmental**

**Motor Vehicle In-Lieu Tax** -- The Motor Vehicle In-Lieu Tax is collected by the State Department of Motor Vehicles through its vehicle registration program in-lieu of a City personal property tax on motor vehicles.

**Gas Tax** -- The State Gas Tax is derived from State of California taxes on gasoline purchases and is allocated, on a share basis, to cities. The Gas Tax revenues are broken down into Sections 2106, 2107 and 2107.5. Sections 2106 and 2107 funds are restricted to the construction, improvements and maintenance of public streets. Section 2107.5 funds are restricted to engineering costs and administrative expenses with respect to City streets.

**Federal, State and County Contributions** -- Senior Nutrition fees are one example a County contribution that is reimbursed to the City from the County of Santa Clara for lunches provided to senior citizens.

### **Miscellaneous Grants** --

Community Development Block Grant - The Housing and Community Development Block Grant (CDBG or HCD) program was designed by the Department of Housing and Urban Development (HUD) to revitalize low and moderate income areas within a city. The use of CDBG funds is restricted by specific provisions and is managed by the Housing and Neighborhood Preservation function.

Public Safety Grants - The City is currently receiving multiple public safety grants including: Supplemental Law Enforcement Services Grant, Local Law Enforcement Block Grant, and COPs in School grant. Future grant spending will be designated for vehicles, equipment and technology improvements.

SB90 - The law in the State of California provides for the reimbursement of costs incurred by local agencies for costs mandated by the State. Costs mandated by the State means any increased costs which a local agency is required to incur after July 1, 1990, as a result of any new statute enacted after January 1, 1975, or any executive order implementing such statute which mandates a new program or higher level of service in an existing program.

### **Charges for Current Services**

***Zoning & Subdivision Fees/Sale of Maps and Documents*** -- Included in these fees are a range of service charges for staff responses to inquiries from the public to review and interpretation of complicated planning and zoning ordinances. Also included are reproduction costs associated with maps and documents from all functions within the organization.

***Recreation Fees*** -- Recreation fees include user program fees for Rainbow Theatre (participation and attendance); preschool, after-school, teen and summer camp programs; swimming lessons; special events and youth and adult recreational classes.

***Rents and Concessions*** -- Rental fees are charged for the private use of City facilities. Rental facilities include the Community Center, Sports Center, Senior Center, the Jose Higuera Adobe and parks throughout the City.

### **Other Revenues**

#### ***Development --***

Park Development Fees - The Park Development Fee is paid by a developer or subdivider for park or recreation purposes, in-lieu of the dedication of the land.

Treatment Plant Fees - Treatment Plant fees are payment for the purchase of waste water treatment capacity rights. The fee is measured in gallons per day, and the higher the usage, the higher the fee. All fees collected are used for Capital Improvement Projects or for Capital Operating Costs at the San Jose/Santa Clara Water Pollution Control Plant or within the City.

Traffic Impact Fees - A Traffic Impact Fee is an exaction from a developer to mitigate traffic impacts associated with the development of the subject property. These fees can be dictated by ordinance or by documentation in a Traffic Impact Analysis (TIA) which, then, are conditions of approval for the development.

#### ***Reimbursements --***

AVASA - Beginning in 1996, the State of California, through the Abandoned Vehicle Abatement Service Authority, began reimbursing cities for vehicle abatement activities based on a per vehicle cost. The State reimbursement varies from year to year based on the number of vehicles claimed by all participating cities.

#### ***Miscellaneous --***

Special Assessments - Local Improvement Districts (LIDs) are established in various parts of the City to provide improvements to properties located in those districts. Properties in the districts are assessed for the cost of improvements; these assessments are payable over the term of the debt issued to finance the improvements and must be sufficient to repay this debt

Solid Waste - Currently the Solid Waste function has two very different revenue streams. The first AB939, is collected by the County as a Tipping Fee at the Landfill and reimbursed to the City on a quarterly basis. The purpose of this fee is to encourage achievement of the State's landfill reduction goal. The second fee is paid by the solid waste customers, incorporated in user rates, and is specifically earmarked for community education and the Household Hazardous Waste programs.

## List of Expenditures

### 410 Personnel Services

#### 4110 Wages

4111 Permanent

4112 Temporary

4113 Overtime

4115 Bonus Pay

#### 4120 Allowances/Leaves

4121 Allowances

4124 Leave Cashout

4125 Accrued Leave

#### 4130 Benefits

4131 PERS

4132 Group Insurance

4133 Medicare

4134 OASDI

4135 Workers' Compensation

4136 Unemployment

4137 MOU Contractual Agreements

4138 Deferred Comp

4139 PARS

#### 4140 Adjustments-Payroll

4141 Adjustments-Payroll

4142 Vacancy Factor

4143 Charged to CIPs

### 420 Services and Supplies

#### 4200 Community Promotions, Grants and Loans

4201 Community Promotions

4202 Community Promotions-CC Allocated

4203 Community Promotions-CC Unallocated

4204 Cultural Arts Grants

4205 Miscellaneous Grants

4206 Sports Grants

4207 Housing Rehab Loans

4208 CDBG Grants

4209 Miscellaneous Loans

#### 4210 Department Allocations

4211 Equipment Replacement Amortization

### 4220 Supplies

4221 Office Supplies

4223 Departmental Supplies

4224 Maintenance Supplies

4225 Health and Safety Supplies

### 4230 Services

4231 Advertising

4232 Blueprinting

4237 Contractual Services

4238 Contractual Services/PJ's

4239 Audit Fees

4240 Street Sweeping

4241 Repair and Maintenance

4242 Rents and Leases

4243 Contributions to Non-City Owned CA

### 4250 Legal Services

4252 Retainers and Fees

4253 ABAG Attorney's Fees

4254 ABAG Settlements

4255 Litigation

### 4280 Elections

4280 Elections

### 440 Communications & Utilities

#### 4410 Communications

4411 Phone-Local

4412 Computer Data Lines

4413 Phone-Long Distance

4414 FAX

4415 Pagers

4416 Cellular Phones

4417 Fire Alarms

4418 Police Alarms

#### 4420 Utilities

4421 Gas

4422 Electric

4423 Water

4424 SFWD, Wholesale Water Purchase

4425 SCVWD, Wholesale Water Purchase

## List of Expenditures

4427 Recycled Water Purchase  
4428 Treatment Plant, Capital  
4429 Treatment Plant, M & O

### 450 Memberships, Training and Travel

4500 Memberships, Training and Travel  
4501 Memberships and Dues  
4502 Professional Licensing  
4503 Training/Registration  
4505 Lodging/Travel  
4506 Meals for Meetings  
4507 Per Diem  
4508 Mileage Reimbursement  
4509 Tuition Reimbursement  
4520 Commissions and Boards  
4521 Conference Expenses  
4522 Non-conference Expenses

### 460 Insurance Settlements and Contingencies

4600 Insurance and Settlements  
4602 Liability  
4610 Uncollectible Accounts  
4610 Uncollectible Accounts  
4630 Depreciation and Amortization  
4630 Depreciation and Amortization  
4640 Contingent Reserve  
4640 Contingent Reserve  
4650 Loss on Sale  
4650 Loss on Sale  
4660 Other Miscellaneous Corrections  
4660 Other Miscellaneous Corrections

### 470 Debt Service

4700 Principal  
4701 Retirement of Principal  
4702 Principal-COP  
4703 Principal-Advance  
4705 Principal-Billings Chevrolet  
4710 Interest  
4711 Interest Expense  
4712 Interest-COP  
4713 Interest-Advance  
4715 Interest-Billings Chevrolet  
4720 Contractual Obligation  
4721 Cost of Issuance  
4730 Premium- Bond Prepayment  
4730 Premium- Bond Prepayment

### 480 Capital Outlay > \$5,000

4800 Capital Outlay  
4800 Capital Outlay  
4810 Land  
4811 Land  
4820 Land Improvements  
4821 Land Improvements  
4830 Buildings and Improvements  
4831 Buildings and Improvements  
4840 Infrastructure  
4841 Infrastructure  
4850 Vehicles  
4851 Vehicles  
4860 Capitalized Leases  
4864 Capitalized Leases  
4870 Machinery & Equipment  
4873 Machinery & Equipment  
4874 Computer Hardware  
4875 Computer Software  
4880 Furniture & Fixtures  
4881 Furniture & Fixtures  
4890 Adjustments-CIP  
4891 Adjustments-CIP-Addition  
4892 Adjustments-CIP-Deletion  
4893 Adjustments-CIP-Transfers  
4894 Adjustments-CIP-Life to Date

## List of Expenditures

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### 490 Capital Outlay < \$5,000

- 4910 Office Furniture & Fixtures
  - 4911 Office Furniture & Fixtures
- 4920 Machinery, Tools & Equipment
  - 4921 Machinery, Tools & Equipment
  - 4922 Computer Hardware
  - 4923 Computer Software
  - 4924 Electronic Equipment
- 4930 Hydrants and Meters
  - 4931 Hydrants
  - 4932 Meters

### 499 Budget Adjustment

- 4990 Budget Adjustment
  - 4991 Equipment Fund Amortization Adjustment

### 999 Suspense

- 9995 Internal Services Fund Transfer
  - 9995 Internal Services Fund Transfer
- 9996 Payroll Clearing Account
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## EXPENDITURE DESCRIPTIONS

### Personnel Services

#### **Salaries and Wages**

**Permanent** – Salaries for full time and part time permanent employees.

**Temporary** - Salaries full time and part time employees who are hired in temporary or substitute basis.

**Overtime** – Amounts paid to employees for work performed in addition to the normal work period. Hours work in excess of 40 hours per week.

**Bonus Pay** - Amounts paid in addition to the usual or expected compensation.

#### **Allowances / Leaves**

**Allowances** – Amounts paid to employees who are entitled to allowances such as car, telephone, uniform, special licenses, canine, motorcycle, SWAT, pager and bilingual pay.

**Leave CashOut**- Amounts paid to employees for hours cashed out from sick or vacation time banks.

**Accrued Leave** – To record year-end adjustments of accrued vacation according to the Generally Accepted Accounting Principles (GAAP). For ACCOUNTING USE ONLY.

#### **Benefits**

**P E R S** – Amounts contributed to the Public Employees' Retirement System (PERS) plan for its employees.

**Group Insurance** – City of Milpitas' share of any insurance coverage for its employees such as Medical, Dental, Vision, Life Insurance, Long Term Disability and Short Term Disability.

**Medicare-Employer's Contribution** – City of Milpitas' share of the Federal Medicare contributions for its employees.

**Worker's Compensation** – Amount allocated to pay for worker's compensation claims made by employees.

**Unemployment** – Amount paid for unemployment claims made by previous employees.

**MOU Contractual Agreements** – Amounts paid according to negotiated MOU agreements.

**Deferred Compensation – Employer Contribution** – Contributions made to the employees' deferred compensation plan.

**P A R S**- Amounts contributed to the Public Agency Retirement System-Alternate Retirement System (PARS-ARS) plan for temporary employees not in the PERS system. This is an alternative to the Social Security System.

#### **Adjustments – Payroll**

**Adjustments – Payroll** – To record year-end payroll adjustments in accordance to the Generally Accepted Accounting Principles (GAAP), i.e., Accrued Payroll which reflects salaries and wages earned by employees as of June 30 but not paid until July. FOR ACCOUNTING USE ONLY.

**Vacancy Factor** – Budget amount to account for vacant positions.

**Charged to CIPs** – Budget amount to account for payroll costs that will be charged to the Capital Improvement Projects.

## **Services and Supplies**

### ***Community Promotions, Grants and Loans***

**Community Promotions** – Public relations activities that are aimed to contribute to the progress or growth of the community.

**Community Promotions CC Allocated** – Public relations activities for progress or growth of the community allocated by the CITY COUNCIL.

**Community Promotions CC Unallocated** – Public relations activities for progress or growth of the community not yet allocated by the CITY COUNCIL.

**Cultural Arts Grants** – Financial assistance provided for Cultural Arts programs or activities.

**Miscellaneous Grants** – Financial assistance provided for miscellaneous grant programs.

**Sports Grants** – Financial assistance provided for Sports programs or activities.

**Housing Rehab Loans** – Amount loaned to homeowners for housing rehabilitation purposes under the Community Development Block Grant (CDBG) program.

**CDBG Grants** – Payment to subrecipients of CDBG Grants.

**Miscellaneous Loans** – Loans other than for housing rehabilitation purposes under the CDBG program.

### ***Department Allocations***

**Equipment Replacement Amortization** – Department's share of the fund being set aside for the purpose of replacing equipment in the Equipment Replacement Program.

### ***Supplies***

Generally, these are items that are consumed.

**Office Supplies** – Purchased for office use. Examples are pen, folders, drinking water, and coffee.

**Departmental Supplies** – Items that are used for the programs of the department. Examples are food for the Senior Center, sports supplies for the Recreation Department, target supplies for the Police Department, and tools for Public Works.

**Maintenance Supplies** – Used for repairs and maintenance of equipment or building. Examples are bolts, screws, nails, janitorial supplies, etc.

**Health & Safety Supplies** – Used for health and safety purposes. Examples are goggles, safety shoes, hard hats, gloves, first-aid kits, VDT glasses, etc.

### ***Services***

Generally, amount paid for services rendered by organization or personnel not on the payroll of the City of Milpitas. Although a product may or may not result from the transaction, the primary reason for the purchase is the service provided.

**Advertising** – Costs of media services and associated costs. Media advertising includes magazines, newspapers, radio and television programs, direct mail, exhibits, and the like. Examples are advertising for such purposes as personnel recruitment, legal ads, new and used equipment and sale of property, and City Clerk notices of meetings.

**Blueprinting** – Usually are services provided to blueprint the engineering plans.

**Contractual Services** – Services rendered by organizations or personnel not on the payroll of the City of Milpitas under a contract or an agreement. Payment of fees to contractors to acquire license or permits for the City of Milpitas should be recorded in this account. NOTE: Copier charges should be paid from this account.

**Contractual Services-PJ's Labor** – Rendered by organizations or personnel not on the payroll of the City of Milpitas under a contract or an agreement for its Private Jobs (PJ). Examples are carpentry, painting, and other labor for the City's Private Jobs.

**Audit Fees** – Professional services provided by Certified Public Accountants (CPA) firms for the purpose of auditing the City's financial statements. Example is the Comprehensive Annual Financial Report.

**Street Sweeping** – Includes sweeping and washing streets, flushing gutters and underpasses and collecting and disposing of debris from streets and public roadways.

**Repair & Maintenance** – Repair and maintenance services provided by personnel not on the payroll of the City of Milpitas. This includes repair and maintenance of the City's buildings and equipment. Examples are vehicular, equipment, and/or facilities repair and maintenance. Cost of warranty obtained after the original equipment warranty expired or any warranties obtained after the purchase of the equipment should be recorded to this account. Annual maintenance agreement or contract on equipment should be recorded here.

**Rents and Leases** – Costs for renting or leasing land, buildings, equipment and vehicles for either temporary or long range use by the City of Milpitas. Agreement should not have an option to buy or to acquire ownership at the end of the lease term. (Please see Capitalized Leases, also).

**Contributions to Non-City owned Capital Assets** – Costs incurred in capital improvement projects that the City does not have the ownership of the property. These costs generally incurred by the City for the benefits of the residents in Milpitas but the property is owned by another government agency. For example, the City spent money to improve the I880/237 intersection to improve the quality of life for local residents, but the City does not own the intersection. CalTrain owns the intersection. For ACCOUNTING USE ONLY – GASB 34.

### ***Legal Services***

**Retainers and Fees** – Fees paid to engage the services of a professional adviser as an attorney.

**ABAG Attorney's Fees** – Fees paid to Associate Bay Area Government (ABAG) attorney.

**ABAG Settlements** – Costs paid to ABAG for settling insurance claims.

**Litigation** – Costs incurred to settling litigation or lawsuits. This should include costs incurred during legal proceedings.

### ***Elections***

**Elections** – Includes expenditures for holding general primary and special elections.

### **Communications and Utilities**

#### ***Communications***

**Communications** – Except the categories below, any services provided by persons or businesses to assist in transmitting and receiving messages or information.

**Phone-Local** – Basic monthly telephone charges.

**Computer Data Lines** – Charges for computer data lines services such as internet user's fees and charges, T1 line monthly charges, and web site charges, if any.

**Phone-Long Distance** – Long distance telephone charges.

**FAX** – Fax line fees and charges.

**Pagers** – Pagers monthly fees.

**Cellular Phones** – Fees and charges associated with cellular telephones.

**Fire Alarms** – Fees and charges for usage and maintenance of fire alarm lines.

**Police Alarms** – Fees and charges for usage and maintenance of police alarm lines.

## ***Utilities***

**Utilities** – Expenditures for energy except gas, electric and water. Examples are bulk oil normally used for heating, and bulk gasoline or diesel purchase for non-transportation use. Gasoline or diesel purchased for transportation purposes should be charged to account 4223 departmental supplies.

**Utilities-Gas** – Gas purchased from a public or private utility company for the City of Milpitas facilities consumption.

**Utilities-Electric** – Electricity purchased from a public or private utility company for the City of Milpitas facilities consumption.

**Utilities-Water** – Water purchased for the City of Milpitas facilities consumption. Drinking water bottles purchased should be charged to account 4221 Office Supplies.

**SFWD, Wholesale Water Purchase** – Water purchased from San Francisco Water Department (SFWD) for resale to the residence and businesses being served by the City of Milpitas.

**SCVWD, Wholesale Water Purchase** – Water purchased from Santa Clara Valley Water District (SCVWD) for resale to the residence and businesses being served by the City of Milpitas.

**Recycled Water Purchase** – Purchased for resale to the businesses being served by the City of Milpitas. For irrigation use only.

**Treatment Plant, Capital** – City of Milpitas share of the Water Pollution Control Plant-Capital Improvement Program paid to City of San Jose.

**Treatment Plant, M & O** – City of Milpitas waste water treatment fees paid to City of San Jose – Maintenance and Operation.

## **Memberships, Meetings and Training**

### ***Memberships, Meetings and Training***

**Membership and Dues** – Amount paid for an employee or group of employees of the City of Milpitas to be a member of an organization.

**Professional Licensing** – Fees paid for an employee of the City of Milpitas to acquire or renew a license or permit in order for him/her to exercise his/her profession. Examples are CPA and Civil Engineer licenses.

**Training/Registration** – Fees paid for a City of Milpitas employee to enroll or attend a seminar, workshop, and/or training class.

**Lodging/Travel** – This is the actual amount paid for a place to stay while a City of Milpitas employee is conducting out-of-the-office business (e.g. hotel accommodation). Airfare and other transportation expenses, except use of own vehicle, such as shuttle to airport and hotel, and car rental are recorded in this account. This is associated with approved travel request.

**Meals for Meetings** – Expenses incurred to provide food in conducting department and/or business meetings. Restaurant meals eaten off site must be approved in advance according to the SOP 8-1.

**Per Diem** – Specified daily meals, incidental expenses, and/or lodging allowance in lieu of actual meal(s), and/or lodging expenses incurred while conducting out-of-the-office business. This is associated with approved travel request. Per Diem rates vary according to your business destination. City of Milpitas' per diem rates are according to the Maximum Federal Per Diem Rates for Travel in Continental United States (CONUS). Please call the Accounting Services Division or refer to the current IRS Publication 1542 for the appropriate per diem rates of your business destination.

**Mileage Reimbursement** – Payment to an employee for the use of his/her vehicle to conduct out-of-the-office business. According to the City of Milpitas SOP 6-1, Section 2d, "Mileage reimbursement shall be at the rate as set by the Internal Revenue Code and shall be reimbursed for the distance between home and destination or work and destination, whichever is less." Please call the Accounting Services Division or refer to the current IRS Publication 535 for the mileage rate.

**Tuition Reimbursement** – Amount reimbursed by the City of Milpitas to any employee qualifying for tuition reimbursement, based upon the City's policy. Please refer to the Memorandum of Understanding of each bargaining unit.

### ***Commissions and Boards***

**Conference Expenses** – For COMMISSIONS and BOARDS USE ONLY. This is for conference related expenses.

**Non-Conference Expenses** – For COMMISSIONS and BOARDS USE ONLY. This is for non-conference related expenses.

### **Insurance Settlements and Contingencies**

#### ***Insurance and Settlements***

**Liability** – Payments of insurance premiums for general liability coverage, public official bond, administrative and property coverage.

#### ***Uncollectible Accounts***

**Uncollectible Accounts** – Portion of a receivable not expected to be collected. For ACCOUNTING USE ONLY.

#### ***Depreciation and Amortization***

**Depreciation & Amortization** – Depreciation is the portion of the cost of a fixed asset charged as an expense during a particular period. Amortization is the portion of the cost of a limited-life or intangible asset charged as an expense during a particular period. For ACCOUNTING USE ONLY.

#### ***Contingent Reserve***

**Contingent Reserve** – Items that may become liabilities as a result of conditions undetermined at a given date, such as guarantees, pending lawsuits, unsettled disputed claims. Includes reserve 1% of the General Fund Budget per the budget resolution, adjusted annually. For ACCOUNTING USE ONLY.

#### ***Loss on Sale***

**Loss on Sale** – Records the loss incurred on sale of property or equipment. ACCOUNTING USE ONLY.

## ***Other Miscellaneous and Corrections***

**Other Miscellaneous and Corrections** – Other object and detail codes not previously classified.  
For ACCOUNTING USE ONLY.

## **DEBT SERVICE**

### ***Principal***

Expenditures for periodic principal maturities of general obligation bonds or payments of principal on general long-term debt other than bonds.

**Retirement of Principal** – Payments of Bond Principal.

**Principal – COP** – Payments of Bond Principal – Certificate of Participation.

**Principal – Advance** – Payments of other debt principal – Advanced fund.

**Principal – Billings Chevrolet** – Payments of other debt principal – Billings Chevrolet.

### ***Interest***

Periodic interest on general obligation bonds or interest payments on general long-term debt other than bonds.

**Interest Expense** – Bond interest payments.

**Interest – COP** – Bond interest payments – Certificate of Participation

**Interest – Advance** – Other debt interest payments-Advanced fund.

**Interest – Billings Chevrolet** – Other debt interest payments to Billing Chevrolet.

### ***Contractual Obligation***

Fiscal Agent's fees are payments made to financial institutions for services rendered in paying interest and redeeming debt at maturity.

**Cost of Issuance** – Payments to bond underwriters, legal fees and other costs associated with bond issuance.

### ***Premium-Bond Prepayment***

**Premium-Bond Prepayment** – Fees (redemption premium) paid for early bond call (bond or any portion of its principal redeemed and paid in advance of maturity).

## **CAPITAL OUTLAY > \$5,000**

Items to be recorded to the object and detail codes under this category should have acquisition cost of **\$5,000 or more per unit** and have a useful life of two or more years. Acquisition cost means the net invoice unit price of an item including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Ancillary charges such as taxes, duty, protective in-transit insurance, freight, and installation; and, extended warranties when purchased at the time of the equipment can be included in the acquisition cost. Please see FIXED ASSETS INVENTORY CONTROL and CAPITALIZATION POLICY, also.

### ***Capital Outlay***

**Capital Outlay** – Expenditures for the acquisition or construction of major capital facilities that do not fall under any of the Capital Outlay > \$5,000 categories. This is usually the accumulation of the

Capital Improvement Project's (CIP) expenditures by phase. Though CIPs expenditures are coded in detail, the result rolls up to this account by phase.

### ***Land***

**Land** – Purchase price plus legal and title fees, professional fees, surveying fees, site preparation cost, and/or any cost incurred to place land in condition for its intended use.

### ***Land Improvements***

**Land Improvements** – Permanent improvements, other than buildings, that add value or useful life to land. Examples are parking lot, fence and gates, retaining walls, fountains, swimming pools, tennis courts, trails and paths.

### ***Buildings and Improvements***

**Buildings and Improvements** – Permanent structures purchased or otherwise acquired by the City. Includes the principal amount of capital lease payments resulting in the acquisition of the building. Payments to building authorities or similar agencies are not to be included in the acquisition cost. The category includes improvements to buildings owned by the City of Milpitas. Examples are additional installation of heating and ventilating systems, and installation of fire protection system.

### ***Infrastructure***

**Infrastructure** – Public domain capital assets includes roads, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, landscape systems, storm systems and traffic systems.

### ***Vehicles***

**Vehicles** – Equipment used to transport persons or objects. Cost includes transportation charges, sales tax, installation costs and extended maintenance or warranty contracts, if purchased at the same time of the equipment. Examples are police cars, fire trucks, and maintenance trucks. Accessories and installation costs can be included if done during the purchase or within 30 days after the purchase of the vehicle.

### ***Capitalized Leases***

**Capitalized Leases** – Principal lease payments for land, building, and/or equipment that will be acquired or subject for ownership within the term of the lease or at the end of the lease. Once acquired, it will be reclassified as land, building, or equipment. Lease contract usually has a clause indicating the option to buy.

### ***Machinery and Equipment***

**Machinery and Equipment** – Any single machinery or equipment except vehicles and computer hardware and software, with an acquisition cost of \$5,000 or more per unit and have a useful life of two or more years. Examples of machinery and equipment are printing press, lathe machines, drill presses and movable generators.

**Computer Hardware** – Computer hardware with an acquisition cost of \$5,000 or more per unit and have a useful life of two or more years. Example is a server.

**Computer Software** – Software with an acquisition cost of \$5,000 or more per unit. Examples are the Accounting Software being utilized by the City of Milpitas Finance Department and the Best Fixed Assets system.

## ***Furniture and Fixtures***

**Furniture and Fixtures** – Office furniture and building fixtures with a unit acquisition cost of \$5,000 or more.

## ***Adjustments – C I P***

**Adjustments – CIP** – Account being used to record year-end CIP adjustments in accordance to the Generally Accepted Accounting Principles (GAAP) to reclassify CIP capital expenditures to the Fixed Assets.

## **CAPITAL OUTLAY < \$5,000**

In addition to the fixed asset categories above, the City of Milpitas performs a risk assessment on City assets to identify those at risk or vulnerable to loss. Items that have a unit acquisition cost of less than \$5,000 but are vulnerable to loss is to be recorded to the following detail codes. Items that are not falling under the categories below should be charged to supplies categories.

## ***Office Furniture and Fixtures***

**Office Furniture and Fixtures** – Examples are chair, table, dividers and workstations with a unit acquisition cost of \$4,999 or less.

## ***Machinery and Equipment***

**Machinery and Equipment** – Examples are fax machines, firearms, weapons, and defibrillators with a unit acquisition cost of \$4,999 or less.

**Computer Hardware** – Examples are desktop computers, laptops, printers, and scanners with a unit acquisition cost of \$4,999 or less.

**Computer Software** – Examples are application and utility programs such as Microsoft Windows programs with a unit acquisition cost of \$4,999 or less.

**Electronic Equipment** – Examples are cell phones, radios, PDAs, digital cameras, VCRs, and televisions with a unit acquisition cost of \$4,999 or less.

## ***Hydrants and Meters***

**Hydrants** – Cost of fire hydrants.

**Meters** – Cost of water meters.

## **Suspense**

## ***Internal Service Fund Transfer***

**Internal Service Fund Transfer** – An account used to record a GASB 34 journal entry, which transfer the excess of internal service fund to other operating funds. For ACCOUNTING USE ONLY.

## ***Payroll Clearing Account***

**Payroll Clearing Account** – An account used to accumulate total charges or credits of payroll so that they can be distributed later among the fund, department and/or accounts to which they are allocable. For ACCOUNTING USE ONLY.

## ***Suspense***

**Suspense** – An account carrying charges or credits temporarily pending the determination of the proper account(s) to which they are to be recorded. For ACCOUNTING USE ONLY.

## GLOSSARY OF TERMS

**Accrual Basis** -- A basis of accounting in which transactions are recognized at the time they are incurred, as opposed to when cash is received and spent.

**Accomplishment** -- Programs and activities successfully completed in the prior fiscal year.

**Appropriation** -- An authorization made by the City Council that permits officials to incur obligations against and to make expenditures of resources. Appropriations are usually made for fixed amounts and are typically granted for a one-year period.

**Appropriations Limit** -- Proposition 4 approved by the voters in 1980 limits the amount of money that cities may spend each year. This limit is set each year based on the amount that was appropriated in 1978-79 and adjusted each year for population growth and a cost-of-living factor.

**Assessed Valuation** -- The value of real property and improvements, as determined by the County Assessor, against which the property tax levy is assessed.

**Asset** -- Resources owned or held by a government that have a monetary value.

**Budget** -- A plan of financial operation embodying an estimate of proposed expenditures for a given period of time and the proposed means of financing them.

**Budgetary Basis** -- This refers to the basis of accounting used to estimate financing sources and uses in the budget. This generally takes one of three forms: GAAP, cash, or modified accrual.

**Budget Calendar** -- The schedule of key dates which government follows in preparation and adoption of the budget.

**Budgetary Control** -- The control or management of a government in accordance with the approved budget for the purpose of keeping expenditures within the limitations of the available appropriations and resources.

**Building Permit Fee** -- Fee required for new construction or for any alteration or addition to a residence or commercial building. The fee is based on valuation. Electrical or plumbing/mechanical work also requires a similar permit with an itemized fee schedule.

**Business License Tax** -- A tax imposed upon businesses in the community. The fee is a flat rate plus a minimal charge per employee.

**Capital Assets** -- Assets of significant value and having a useful life of several years (the term fixed assets is also used).

**Capital Budget** -- A plan of proposed capital expenditures and the appropriations to finance them. The capital budget is usually enacted as part of the complete annual budget that includes both an operating component and a capital component. The capital budget should

be based on a capital improvement program (CIP) and is typically the first year of a multi-year CIP.

**Capital Improvement** -- Projects which purchase or construct capital assets. Typically capital improvements include new street improvements, park development, the acquisition of land, major construction of public facilities, and major maintenance/repair projects such as street resurfacing or modifications to public facilities.

**Capital Improvement Program** -- A comprehensive five-year plan of implementing proposed capital projects which identifies priorities as to need, cost, and method of financing during the next five years. The first year of the CIP is typically adopted as the current capital budget.

**Capital Outlay** -- Expenditure for the acquisition of equipment for direct services, (i.e. computers, communication radios, etc.). Capital Outlay is a line item in the operating budget and usually contains items that should be depreciated for future replacement.

**Comprehensive Annual Financial Report (CAFR)** -- The official annual financial report for the City. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principals (GAAP).

**Contingency Reserve** -- A specific line item appropriation from which to distribute additional funds to decision units for salary increases resulting from employee contract negotiations and to pay for emergencies or unanticipated expenditures that from time to time arise during the course of a fiscal year.

**Contractual Services** -- Services rendered to a government by private firms, individuals, or other governmental agencies. Examples include utilities, rent, maintenance agreements and professional consulting services.

**Debt Service** -- Payment of interest and repayment of principal to holders of the City's debt instruments.

**Department** -- An organizational unit of government which is functionally unique in its delivery of services.

**Encumbrances** -- Commitments against an approved budget for unperformed (executory) contracts for goods and services. They cease to be encumbrances when the obligations are paid or otherwise terminated.

**Enterprise Fund** -- Used to account for specific services, i.e. water and sewer, which are funded directly by fees and charges to users.

**Equipment Charges** -- Charges or "rental fees" charged to user departments to defray the cost of maintaining the equipment used and to replace the equipment when it exceeds its useful life.

**Expenditure** -- The payment of cash on the transfer of property or services for the purpose of acquiring an asset, service or settling a loss.

**Expense** -- Charges incurred for operations, maintenance, interest or other charges.

**Final Budget** -- The budget document adopted by resolution following the budget hearings in June of each year. The document formally incorporates any Council changes to the preliminary budget, resulting from the budget hearings.

**Fiscal Year** -- The financial year for the City of Milpitas is July 1 through June 30 of the subsequent year.

**Fixed Assets** -- Assets of long-term character that are intended to continue to be held or used, such as land, buildings, machinery, furniture or other equipment.

**Franchise Fee** -- A regulatory fee charged to utility companies for the privilege of doing business in the City of Milpitas, i.e. garbage franchise fee, gas and electric franchise fee, and nitrogen gas franchise fee.

**Function** -- A discrete entity such as an organizational unit or groupings of interrelated programs within a department or division whose appropriations for salaries, services and supplies, and capital outlay can easily be subjected to analysis in the budget process.

**Fund** -- An independent fiscal and accounting entity used to record all financial transactions related to the specific purpose for which the fund was created.

**Fund Balance** -- Also known as financial position, fund balance is the excess of current assets over current liabilities, and represents the cumulative effect of revenues and other financing sources over expenditures and other uses.

**Gas Tax** -- Share of revenue derived from the State taxes on gasoline.

**General Fund** -- The main operating fund of the City.

**Government Accounting Standards Board (GASB)** -- A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

**Hotel/Motel Tax** -- A transient occupancy (less than 30 days at a hotel or motel) tax imposed for general purposes. The tax is currently 10% of receipts.

**Infrastructure** -- The physical assets of a government (i.e. streets, water and sewer systems, public buildings and parks).

**Interest** -- Income resulting from the prudent investment of idle cash. The types of investments are controlled by the City's Investment Policy in accordance with the California Government Code.

**Level of Service** -- A description of the services provided, or activities performed, and the cost and personnel requirements.

**Line Item** -- The description of an object of expenditure, i.e. salaries, supplies, contract services, etc.

**Motor Vehicle In Lieu** -- A share of the revenue derived from registration fees charged by the State.

**Objective** -- Program or activity intended to be implemented in the ensuing fiscal year.

**Overhead Charges** -- A charge made to a developer account or the Redevelopment Agency to defray the direct and indirect overhead costs associated with an employee performing duties or providing services to the fund or account charged.

**Park Development Fee** -- The fee paid by a developer or subdivider for park or recreation purposes in lieu of the dedication of land.

**Personal Services** -- Expenditures for salaries, wages and fringe benefits of a government's employees.

**Personnel Allotment** -- List of full-time and part-time employees required to support a division or Function, listed by their classification or title.

**Personnel Analysis** -- Changes to personnel allotment from the previous fiscal year. Reorganizations, reclassifications and reallocation of resources are highlighted in this section.

**Performance Indicator** -- Quantitative measures of accomplishments and objectives, sometimes known as workload/performance measures.

**Prior-Year Encumbrances** -- Obligations from previous fiscal years in the form of purchase orders, contracts or salary commitments which are chargeable to an appropriation, and for which a part of the appropriation is reserved. They cease to be an encumbrance when the obligations are paid or otherwise terminated.

**Property Tax** -- A tax imposed on real property (land and permanently attached improvements) based upon the assessed value of the property. The tax rate may not exceed 1% of assessed value.

**Proposed Budget** -- The budget document recommended by the City Manager that is approved as may be amended by the City Council during budget hearings. The hearings are held in June, and the approval of the Preliminary Budget gives spending authority effective each July 1st for the subsequent fiscal year.

**Recreation Fees** -- Charges for services provided to participants of Community and Recreation Services' classes, activities, and recreational sports.

**Redevelopment** -- The planning, development, replanning, redesign, clearance, reconstruction, or rehabilitation of real property, and the provision of such residential, commercial, industrial, public, or other structures appropriate to the general welfare of the City.

**Rents and Concessions** -- Charges for group rentals of City facilities.

**Reserves** -- A savings account maintained for restricted use, i.e. self-insurance programs, capital improvement projects, or for unrestricted use to protect the City from emergencies or unanticipated expenditures.

**Revenue Analysis** -- Departmental revenue sources are described. Revenue increases, decreases and strategies are highlighted in this section.

**Sales Tax** -- Of the \$.0825 sales tax paid on every \$1.00 spent when shopping in Milpitas, \$.01 is returned to the City.

**Services and Supplies** -- The category of line items that describe non-salary and non-capital outlay expenditures.

**Special Revenue Fund** -- Used to account for revenue that is set aside for restricted use, e.g. gas tax receipts are set aside in such a fund to be used solely for street improvements.

**Supplemental Appropriation** -- An additional appropriation made by the governing body after the budget year has started.

**Taxes** -- Compulsory charges levied by a government for the purposes of financing services performed for the common benefit of the people. This term does not include specific charges made against particular persons or property for current or permanent benefit, such as special assessments.

**Tax Increment Revenue** -- Property tax generated within the redevelopment project area that accrues solely to the Milpitas Redevelopment Agency.

**Transfers In/Out** -- Amounts transferred from one fund to another to assist in financing the services for the recipient fund.

**Workload/Performance Measures** -- Quantitative measures of services provided, or activities performed, by an organizational unit.

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\_\_\_\_\_ 2003-2004 FINAL BUDGET \_\_\_\_\_

\_\_\_\_\_ CITY OF MILPITAS, CALIFORNIA \_\_\_\_\_